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STEEGO CORPORATION

ANNUAL REPORT FISCAL 1981

PRIMARY COMMERCIAL ACTIVITIES

STEE
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N.Y.S.E. S

STEEGO Corporation is a balanced group of companies involved i
ices. Primary sources of sales revenues are 49% non-durable goo
is the core business, accounting for 45% of total volume. Geogr

[FISCAL 1981 SALE

NON-DURABLE GOODS

[FISCAL 1981 SALES $121.4 MILLION = 49%]

REPLACEMENT PARTS

Automotive Replacement Parts.

STEEGO markets and warehouse distributes automotive replacement parts through captive warehouse distribution centers to the general aftermarket trade and its captive jobber stores.

Markets served:

United States:

STEEGO Auto Parts, Inc.
- New England
- Mid-Western (Ohio)
- South Eastern (Florida)

Canada:

McKerlie-Millen, Inc.
- Ontario
- Quebec

Agri-equipment Replacement Parts.

STEEGO markets, warehouse distributes and manufactures farm equipment replacement parts, including grass and crop-cutting mechanisms, tillage and planting tools, and other farm-related service parts.

Markets served:

United States:

Herschel Corporation
- National Distribution

PRINTING & ALLIED PRODUCTS

STEEGO designs, prints, and binds office related products, including special application commercial and hospital forms, indexes and filing supplies, custom loose-leaf ring binders, "one-write" accounting systems and other similar expendable office supplies.

Markets served:

United States:

Elbe Products, Inc.
- Mid-Atlantic
- Mid-Western
- New England
- South Eastern
- Puerto Rico

(1) Revenues from Financial Services are not included. Earnings are reported on the equity method.

(2) Steego's financial services subsidiary sold its 68.6% interest in Milwaukee Western Bank on December 31, 1980.

DURABLE GOO

[FISCAL 1981 SALES $124.8 MILLION

TRANSPORTATION EQUIPMENT

Freight and Load Handling Equipment.

STEEGO engineers, manufactures, and markets various types of commercial wheel-type over-the-road vehicles including freight and cargo trailers, furniture trailers, special application trailers, and truck bodies. Also, heavy-duty truck and trailer replacement parts and accessories are marketed through company-owned service branches.

Markets served:

United States:

Nabors Trailers, Inc.
- South
- Southwest

Solid Waste Handling Equipment.

STEEGO engineers, manufactures and markets special truck mounted and stationary type solid-waste compacting and handling equipment.

Markets served:

Canada:

A.M.I. Steego Limited
- National Distribution

METAL WORKING MACHINERY

STEEGO markets and distributes industrial metal working machinery, including standard and special metal cutting, metal forming machinery and accessories, attachments, and other related industrial supplies.

Markets served:

United States:

United Technical Corporation
- Regional and National Distribution

Canada:

Upton, Bradeen & James, Limited
- Ontario
- Quebec

STEEGO, through the "Unisig" joint venture, assembles and markets sophisticated turning and deep hole boring machines and related precision tooling.

Markets served:

United States:

Unisig Corporation
- National Distribution

PRINCIPAL MARKETS SERVED BY . . .

GO
RATION

OL "STG"

keting, warehouse-distribution, engineering, manufacturing, and serv-
% durable goods, and 1% services. The replacement parts business
sources of sales are: 64% United States and 36% Canada.
49 MILLION = 100%]

%]

FABRICATED METAL PRODUCTS

STEEGO, on a contract basis, engineers, fabricates, machines, and assembles large industrial process subcomponents and related industrial structures and equipment. Heavy field construction installation and erection work is also undertaken.

Markets served:

Canada:

A.M.I. Steego Limited

- National
- International

SERVICES (1)

[FISCAL 1981 SALES $2.8 MILLION = 1%]

ENGINEERING SERVICES

STEEGO's consulting engineering service performs civil and process engineering assignments, including master planning, design and engineering, environmental impact studies, project management and procurement and construction supervision. Jobs are undertaken on an individual task or turn-key basis.

Markets served:

United States:

King & Gavaris Consulting Engineers, Inc.

- National
- International

IMPORT-EXPORT SERVICES

STEEGO operates a comprehensive international import-export service for independent manufacturers and STEEGO's subsidiaries.

Markets served:

Steego Trading Corporation

- Europe
- Middle East
- South America
- Central America

FINANCIAL SERVICES (2)

Commercial Financing and Leasing.

STEEGO operates a commercial lending and purchase-lease activity specializing in the financing of commercial equipment including freight-trailers, industrial machinery and equipment, and selected categories of office machinery.

Markets served:

United States:

Bayou Acceptance Corporation

- Midwest
- South
- Southwest

OTHER BUSINESS ACTIVITIES

STEEGO a ired large tract unimprove nd which are g resold as land or co ted into resid al and comm al building s

Markets se d:

U ed S es:

Homestea Corporati

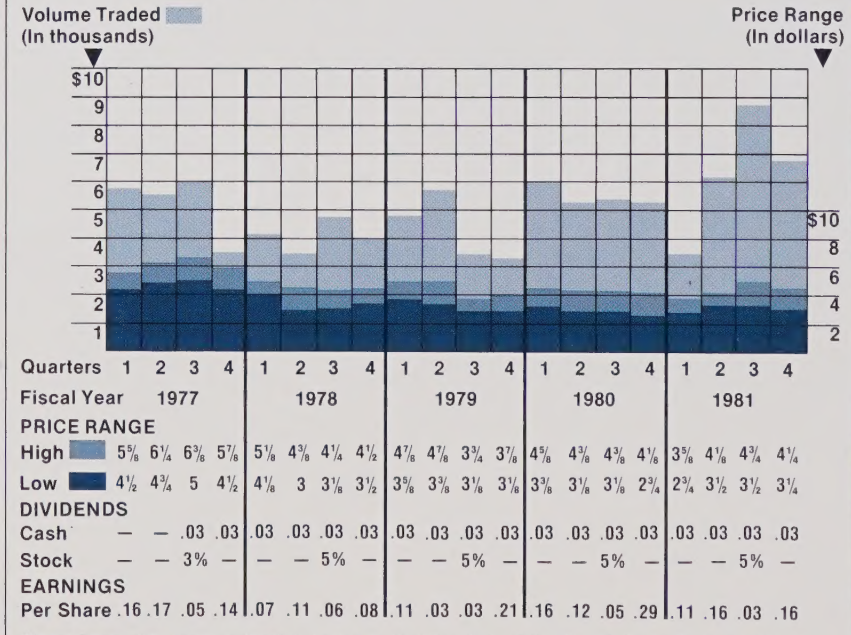
- Arizona

Financial Highlights

(In thousands except stock data)

		Fiscal Year Ended April 30, 1981	1980	1979
Operations	Net sales before translation	**$264,897**	$244,053	$216,480
	Currency translation adjustments	***(15,887)***	*(13,908)*	*(11,286)*
	Net sales	**$249,010**	$230,145	$205,194
	Income from continuing operations before translation	**$ 4,436**	$ 3,802	$ 3,420
	Currency translation adjustments	***(1,252)***	*(38)*	*(1,381)*
	Income from continuing operations	**$ 3,184**	$ 3,764	$ 2,039
	Net income before translation	**$ 4,763**	$ 4,736	$ 4,259
	Currency translation adjustments	***(1,252)***	*(38)*	*(1,381)*
	Net income	**$ 3,511**	$ 4,698	$ 2,878
Financial Position	Stockholders' equity	**$ 53,033**	$ 50,494	$ 46,676
	Long-term debt	**$ 45,553**	$ 40,348	$ 33,085
	Debt-to-equity ratio	**86%**	80%	71%
	Working capital	**$ 57,878**	$ 53,798	$ 45,205
	Current ratio	**2.3**	2.2	2.1
Stock Data	Common shares outstanding, year-end	**7,121,000**	6,775,000	6,402,000
	Net income per common share	**$ .46**	$ .62	$ .38
	Common stock dividends — cash	**$ .12**	$ .12	$ .12
	— stock	**5%**	5%	5%
	Book value per common share	**$7.01**	$6.65	$6.14

AVERAGE DAILY VOLUME TRADED
COMMON STOCK PRICE RANGE
DIVIDENDS PER SHARE



Quarters	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4			
Fiscal Year	1977				1978				1979				1980				1981						
PRICE RANGE																							
High	5⅝	6¼	6⅜	5⅞	5⅛	4⅜	4¼	4½	4⅞	4⅞	3¾	3⅞	4⅝	4⅜	4⅜	4⅛	3⅝	4⅛	4⅜	4¼			
Low	4½	4¾	5	4½	4⅛	3	3⅛	3½	3⅝	3⅜	3⅛	3⅛	3⅜	3⅛	3⅛	2¾	2¾	3½	3½	3¼			
DIVIDENDS																							
Cash	—	—	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03	.03			
Stock	—	—	3%	—	—	—	5%	—	—	—	5%	—	—	—	5%	—	—	—	5%	—			
EARNINGS																							
Per Share	.16	.17	.05	.14	.07	.11	.06	.08	.11	.03	.03	.21	.16	.12	.05	.29	.11	.16	.03	.16			

Steego Corporation Common Stock is traded on the New York, Midwest and Pacific Stock Exchanges. Stock Listing Symbol "STG."

Chart 1

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STEEGO CORPORATION
SPHERE OF OPERATIONS

★ **CORPORATE HEADQUARTERS**
Steego Corporation
Milwaukee Western Corporation
Steego Parts Corporation
Steego Auto Parts, Inc.
Steego Trading Corporation

AUTOMOTIVE REPLACEMENT PARTS
■ Warehouses
● Jobber Stores
▲ Automotive Paint Centers

AGRI-EQUIPMENT REPLACEMENT PARTS
▼ Manufacturing Facility
▼ Warehouses

✳ **METAL WORKING MACHINERY**

PRINTING AND ALLIED PRODUCTS
✚ Manufacturing Facility
✚ Sales Offices

◆ **FABRICATED METAL PRODUCTS**

TRANSPORTATION EQUIPMENT
✖ Manufacturing Facility
✖ Sales and Service Branches

REAL ESTATE HOLDINGS

$ **FINANCIAL SERVICES**

TO THE STOCKHOLDERS:

In fiscal 1981 STEEGO made significant progress toward achieving annual revenue growth and improved profitability. The recent expansion of the Company's capital base provides the financial foundation needed to generate a desirable annual rate of growth.

Fiscal 1981 consolidated net income, before translation and non-recurring items, was up from last year. However, as indicated under Financial Highlights on the inside front cover, net income was adversely affected by the large unrealized currency translation loss provision made to reflect the Canadian dollar's abrupt exchange rate decline versus the U.S. dollar.

Despite soft economic conditions prevailing in North America during fiscal 1981, net sales, before currency translation adjustments, increased $21 million to $265 million, an all-time record. Net sales, even after a $16 million negative currency translation adjustment, reached a record $249 million. Sales growth was registered in both of the Company's major revenue segments: non-durables and durables. This growth evidenced management's emphasis upon enhancing the effectiveness of all marketing functions and improving the performance of the physical distribution functions. Management's persistent efforts toward developing a superior marketing organization in each segment is positioning the Company as a strong sales competitor in all of its markets. Management resolutely believes that the existence of a skillful marketing force is the primary locomotive needed to render the advocated supply-side economic remedy viable.

Fiscal 1981 net income, before currency translation and non-recurring items, amounted to $4,763,000 compared to $4,278,000 reported in the previous year. The improvement in net income was achieved despite the elimination of a major source of financial services income. Also, fiscal 1981 earnings did not benefit from non-recurring income generated from real estate sales. On December 31, 1980, 68% owned Milwaukee Western Bank was sold, thereby eliminating income generated by the Bank. However, financial income from investment of the proceeds from the sale replaced some of that income.

Final net income for fiscal 1981 was severely eroded by an unrealized negative currency translation adjustment of $1,252,000 (17¢ per share) (refer to Chart 7 on page 21). This foreign currency related adjustment was infinitely greater than the $38,000 (1¢ per share) mini-reduction experienced last year. As a consequence, net income, after currency translation adjustments, was reduced to $3,511,000 in fiscal 1981 (46¢ per share) compared to $4,698,000 (62¢ per share) the previous year (refer to Financial Highlights on the inside front cover).

Management expects a moderate recovery in the Canadian dollar's exchange rate value against the U.S. dollar during the course of fiscal 1982, due primarily to the evolving increase in the interest rate differential in favor of Canada and the favorable impact of Canada's slowly improving balance of payments on current accounts. If this projected Canadian dollar exchange rate improvement occurs, most of STEEGO's recent currency translation loss could be erased. Moreover, the Canadian dollar value should probably rise even further over the long term because of that country's self-sufficiency in energy, a rich asset base made up of huge indigenous resources, a relatively low defense burden, and an expected inflation rate below the international norm.

The improvement in STEEGO's operating results was confirmed by the final quarter operating figures. Nonetheless, fourth quarter results were restrained by recognition of unrealized currency translation losses and, as previously pointed out, by the elimination of some financial services income resulting from the sale of the Bank.

Fourth quarter sales, before currency translation adjustment, reached $68.2 million essentially flat with the $68.9 million experienced last year. Considering the state of the economy, this was a positive result.

Fourth quarter income from continuing operations, before taxes, amounted to $3,100,000, 13% greater than last year's $2,750,000.

Fourth quarter operating income increased compared to the immediately preceding quarter and against the same quarter last year. This improvement resulted primarily from the overall increase in gross margin contribution flowing through from a higher sales level enjoyed by most major divisions. Nevertheless, fourth quarter operating income was again offset by the adjustments made in the period to reflect further unrealized currency translation losses.

Higher fiscal 1981 earnings before the effect of unrealized currency translation resulted from a combination of more favorable profit-generating factors than unfavorable. Primary favorable factors contributing to profitability included: the dramatic $1.3 million improvement in the U.S. auto parts operating results compared to last year; the widening gross margin spread forced by pricing discipline and related strategy; the large increase in gross margin contribution generated from the surge in machine tool shipments; the introduction of an improved cash management program with a resultant net incremental increase in interest income earned on short-term investment of working capital funds wrung out of the circuit; and stricter price controls. There were, however, several unfavorable factors that

cut deeply into profitability, including the effects of higher inflation sensitive, non-controllable costs and expenses; the additional interest incurred to carry a large special equipment inventory, the shipment of which has been delayed by unsettled conditions in the Middle East; the effects of the higher minimum wage level and the larger social security tax; the large start-up costs connected with the new Unisig machine tool joint venture; and the sharp rise in the incremental cost of interest on short-term debt. Some of the variable negative factors have already been eliminated and most of the others should be corrected or mitigated during the current fiscal year.

Management expects fiscal 1982 sales to increase. STEEGO serves several unique market segments, some of which respond to different business cycles. Although the effects from the current generally recessionary economy on fiscal 1982 sales are difficult to forecast precisely, management anticipates business conditions affecting most of STEEGO's markets will progressively improve, thereby supporting a year-to-year increase in consolidated revenues and profits. However, in fiscal 1982, the machine tool segment's sales are expected to be somewhat lower than recorded in fiscal 1981. U.S. demand for capital goods is being suppressed by an unfavorable combination of continuing high interest rates, customer indecision emanating from the U.S. Government's long delay in committing to depreciation-related tax incentives, and the deferral of anticipated military orders and the related impact on machine tool demand. Though the Canadian machine tool market is similarly cyclical, several years ago the Canadian government installed stimulative tax incentives to encourage capital investments in production machinery. This strong incentive remains as a counter cyclical force. Regardless, STEEGO's machine tool order backlog should support a satisfactory level of machine tool sales in fiscal 1982.

The U.S. Agricultural Machinery Replacement Parts and Tools aftermarket demand is presently sluggish. Nevertheless, demand should soon regain strength because total acreage being planted, cultivated and harvested is greater than in fiscal 1981. The U.S. Government's recent lifting of the grain embargo on the U.S.S.R. should cause a further increase in crop planting in fiscal 1982 and the foreseeable future.

Management anticipates improved consolidated profit performance in fiscal 1982 even though the Machine Tool Group's contribution is expected to be somewhat lower. This projection is predicated upon an expected widening of the consolidated gross margin spread derived from a change in the sales mix and a higher consolidated sales level, in combination with a reversal of currency translation losses.

In order to avoid erosion of profit by inflation, variable operating costs and expenses are being closely monitored. Computerization is expected to facilitate acceleration of inventory turnover, which should free up additional working capital funds for temporary investment in high yield securities. Such additional interest income will reduce the Company's net interest cost.

STEEGO's operating organization is skilled, experienced and aggressive. The team's unshakeable resolve to stick with tough assignments until identified goals are achieved ensures the realization of the full financial rewards from exciting projects under way.

For example, computerization at STEEGO has progressed exceptionally fast. The Management Information Services Department (''MIS''), launched in fiscal 1975, is directed at installing tight operating

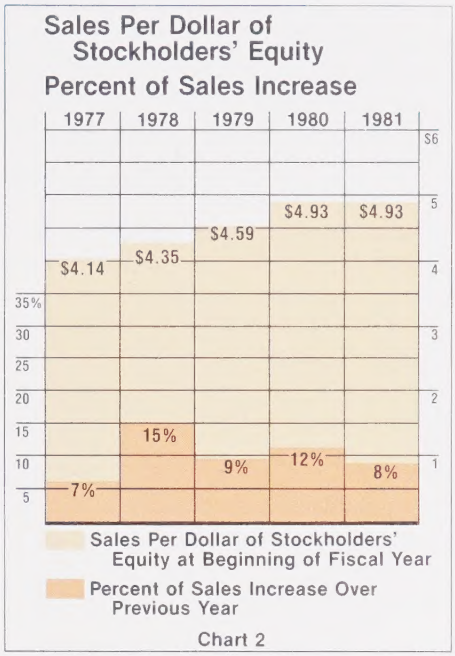


Chart 2

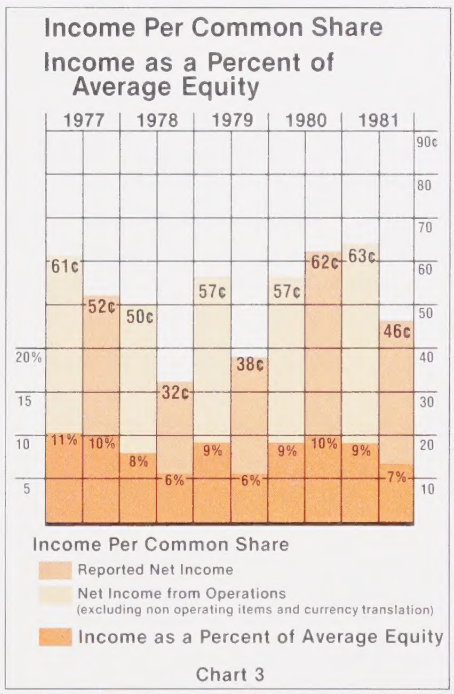


Chart 3

controls at critical, high-volume transaction points; standardizing routine accounting interfaced systems and related procedures; speeding up operating and financial communications; cutting out unnecessary transaction paperwork; and eliminating the waste attached to rediscovering existing proven computer software.

The MIS Department is spearheaded by an experienced business executive to ensure resulting output data is furnished in useful form and heavily biased towards easy-to-use exception reports. STEEGO's evolvement to a computerized data-based company has already eliminated much of the inertia of cumbersome manual data processing, thus furnishing profit-sensitive data to key management personnel.

EDP units already installed are expected to raise profitability because ingrained clerical habits are broken, thereby allowing responsible executives to effectively monitor sales, control prices, administer credit and collections, exert the buying power of central purchasing, control inventory and, last but not least, exercise maximum control over the velocity of funds flow. Today's high cost of money necessitates optimum transactional velocity. Transaction speed is the key to maximizing the capital turnover velocity.

Outside purchases of merchandise, materials and supplies make up in excess of 80% of STEEGO's total cost of sales. During fiscal 1981, purchasing of automotive replacement parts was centralized to more fully exploit the economies of scale and restrain the proliferation of merchandise lines being offered. A skilled, experienced purchasing executive was enlisted to coordinate this critical profit-making function. The computerization of sales and inventory data renders centralized purchasing practical, with an expected reduction in cost of goods sold.

Control over selling prices is one of the Company's most important profit-making functions, especially in the Automotive Replacement Parts Group. Projects relating to the installation of price control systems and related procedures are assigned a high priority and are a focus of management's close attention. Now that most planned EDP installations are functional, this critical profit-making activity can be more effectively administered. In an inflationary biased economy, the capability to swiftly adjust prices is critical to profitability. Price catalogues stored within the computer memory can be quickly updated.

Computers are installed in all except four automotive warehouses. In addition, the undertaking to install interconnected computers in STEEGO's large transaction volume captive jobber stores will be completed within 18 months. This latter high priority undertaking, directed at controlling high volume transactions, should, upon completion, materially enhance jobber store profitability.

These are a few high profile undertakings being implemented to increase future sales, improve profits, and accelerate capital turnover, all of which will make it possible to absorb and control substantial future growth. Though projects to install EDP have been time consuming and expensive, these installations represent commitments to the Company's future expansion.

FINANCIAL POSITION

The Company's strong financial position provides support for annual growth. Working capital at April 30, 1981 was $57.9 million, compared to $53.8 million at April 30, 1980. The ratio of current assets to current liabilities was 2.3:1 compared to 2.2:1 last year. At year end, cash and short-term interest bearing securities aggregated $10.7 million.

Management perceives a severe capital squeeze evolving within the U.S. in the intermediate term as fierce competition heats up between the public and private sectors for a relatively limited supply of capital funds. Persistent international economic instability; the net current borrowing requirements of energy-short nations; the ratcheting effect on credit demand stemming from progressive currency devaluation; the expanding reliance by central governments upon export credit to compete for badly needed foreign trade; the secular rise in demand for investment capital to cure energy-related source imbalances; the escalating demand for credit to support the huge military build-up; and the increasing credit needed to make up the public sectors' persistent deficit spending are all factors indicative of the potential credit squeeze. In response to these factors, short and medium-term interest rates will, within the intermediate time frame, likely escalate to much higher plateaus and long-term, fixed-rate fund sources will become scarce.

Though the weight of economic evidence indicates there is a strong probability that in the very near future short-term interest rates will moderately decline, such a favorable credit development can prove to be a snare and an illusion. Any material softening in the money market rubbing off favorably on long-term rates will trigger the marketing of the huge backlog of unsatisfied public and private sector requirements for long-term maturity funds.

This grasp for funds again will force interest rates upward and tend to preempt secondary borrowers from access to the long-term capital market. After carefully assessing the probability of higher interest rates on the horizon and the drying up of long-term funds, management chose this timing to eliminate the Company's overexposure to volatile floating-rate debt and locked up long-term, fixed-rate funds.

On March 5, 1981, the Company sold in an underwritten public offering $25 million, 20-year, 14¾% fixed-rate subordinated debentures.

Proceeds from the sale of the subordinated debentures were used to retire $16 million of floating-rate debt and the remaining net proceeds have been temporarily invested in high-yield money market instruments.

Much of the Company's financial strength is founded upon the liquid characteristics of its primary underlying assets. Approximately 70% of the Company's total tangible assets consists of cash, marketable securities, accounts receivable and inventories. Readily liquidatable replacement parts (non-styled merchandise items), make up a high proportion of the inventory value. Thus, the Company's asset pool provides an excellent hedge against erosion of capital by inflation, while maintaining an optimum degree of liquidity.

During the year, STEEGO's financial subsidiary sold its 68% ownership of the Milwaukee Western Bank. This transaction brought in $6,800,000 cash and $6,185,000 in notes fully guaranteed by irrevocable letters of credit from the First Wisconsin National Bank of Milwaukee.

PERSONNEL AND ORGANIZATION

Undertakings directed at building a competent, entrepreneurial organization are unending. Emphasis is focused upon strengthening the professional and technical disciplines within the fabric of the organization to provide necessary talent to support planned long-term growth.

Mr. William B. Cudahy recently decided to reduce his business activities and accordingly requested to be relieved of his responsibilities as a STEEGO director and Chairman of its Audit Committee. Mr. Cudahy diligently served as a director for 20 years and contributed measurably to the Company's growth and present financial posture. The organization appreciates his devoted service and will miss his wise counsel.

Mr. Dean Anderson, Vice President of Atlas Bradford Division of NL Industries, was elected to replace Mr. Cudahy as a director. Mr. Anderson holds a Bachelor of Science in Mechanical Engineering and a Masters of Business Administration. His practical experience includes all facets of accounting and manufacturing activities.

In reference to labor relations, the Company's total cost of sales incorporates a relatively low proportion of conversion labor content; therefore, the Company is not overly exposed to serious impact from labor related disruptions. Union contracts currently in negotiation are: A.M.I. Steego, the engineering and fabricating enterprise located in Mississauga, Ontario, Canada, and Herschel Corporation, the agri-equipment parts operation located in Indianola, Iowa. Management predicts the A.M.I. negotiations will be difficult but not disruptive; whereas the Herschel union, on June 1, 1981, went out on strike. Fortunately, the strike is taking place in an off-season period and sales should not be overly penalized.

STEEGO employs approximately 2,700 employees in the U.S. and Canada. Sales per employee amounted to approximately $93,000 in fiscal 1981, compared to approximately $82,000 last year. Logically, sales mix heavily influences resulting statistics; nonetheless, real output per employee at STEEGO is truly increasing. The challenge in wage/salary administration is to keep productivity levels ahead of average annual wage and salary increases. In order to increase productivity, STEEGO regularly invests in capital projects.

DIVIDENDS

The Board of Directors, at the June 12, 1981 meeting, declared the regular quarterly $.03 cash dividend ($.12 annually) payable to common stockholders of record on June 22, 1981. In addition, in fiscal 1981 a special 5% stock dividend was paid to common stockholders.

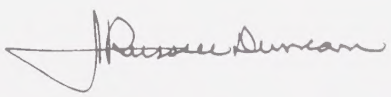
CORPORATE GROWTH

Growth ambitions cannot be permitted to exceed available resources. During the past two fiscal years, management limited its acquisition program in conformance with the precept that expansion must be reconciled with fiscal discipline. Executive attention was concentrated on the existing core businesses. Most undertakings were directed at improving profitability, accumulating working capital and perfecting internal controls.

STEEGO's operating and financial posture now is strong. Consequently, STEEGO, consistent with long-term plans, is again seeking compatible acquisitions.

OUTLOOK

In summary, management projects higher sales and earnings for fiscal 1982, even though machine tool sales and agri-equipment parts sales could soften. The random side effects on the different market segments from the generally sluggish North American economy are difficult to pinpoint; nevertheless, STEEGO's marketing strength is expected to override any precipitous negative change.



J. Russell Duncan
Chairman of the Board and
Chief Executive Officer

Matthew E. Carroll
President

STEEGO AUTO PARTS
Open

NON-DURABLE GOODS

Replacement Parts

The replacement parts operations include warehousing and jobber distribution of automotive replacement parts in the "aftermarket" and the manufacturing and marketing of agricultural equipment replacement parts to original equipment manufacturers and to the aftermarket service trade. Automotive parts demand is supported by the ongoing service requirements of over 165 million vehicles operating in North America. The secular demand for farm equipment parts is augmented by the world's increasing need for farm products which coincidentally encourages the mechanization of farming.

Printing and Allied Products

The printing and allied products operations include the production and marketing of office related items including special application, expendable office and hospital forms, custom loose-leaf ring binders, and other specialty office supplies. The ever expanding volume of business record keeping and mass of paper work enhances demand for these expendable products.

NON-DURABLE GOODS

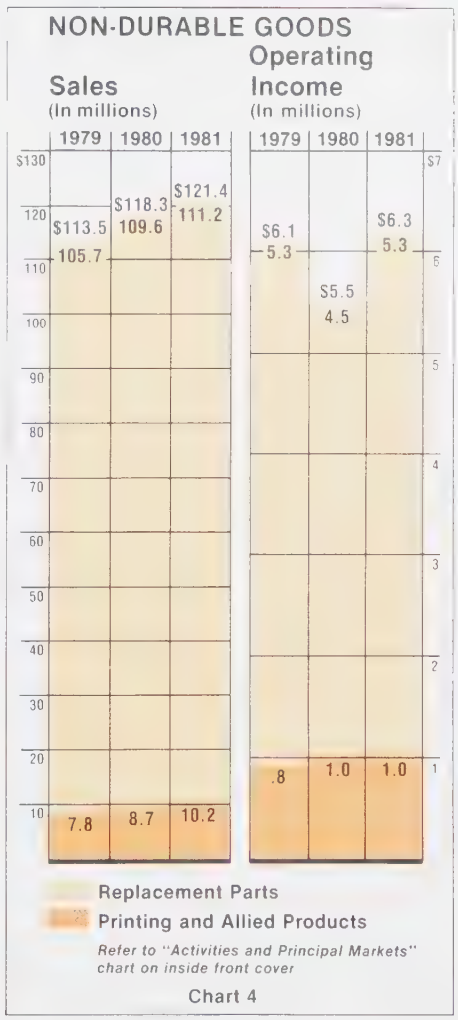
The Non-Durable Goods Segment's sales in fiscal 1981 reached $121.4 million, compared to $118.3 million last year, whereas fiscal 1981 operating income increased to $6.3 million, up 15% over the $5.5 million reported last year.

Replacement Parts Segment

The Replacement Parts Segment increased sales to $122 million in fiscal 1981, before currency translation. This figure amounted to a nominal 2.5% increase over the $119 million sales reported on the same basis last fiscal year. Replacement parts revenues amounted to 45% of the Company's consolidated sales. This segment's performance heavily impacts the Company's overall results.

Though the Replacement Parts Segment's sales volume increased, the overall annual sales growth rate was restrained by the combination of the U.S. automotive replacement parts division's 3.6% lower sales and the agri-equipment replacement parts division's 10.6% lower sales. The Canadian automotive replacement parts division increased sales 8.6% before currency translation; however, that growth was not enough to materially boost the segment's overall average. Higher sales

Steego Auto Parts has implemented a standard store concept and has introduced modern merchandising techniques, directed at both the wholesale and retail customer.



Refer to "Activities and Principal Markets" chart on inside front cover

Chart 4

are budgeted for this segment in fiscal 1982 even though the North American economy presently is sluggish.

The combined Replacement Parts Segment's operating income, before currency translation, surged to $5.9 million, 20% ahead of last fiscal year's depressed $4.9 million result. This dramatic swing primarily was attributable to a $1.3 million cut in the U.S. automotive replacement parts division's operating loss. This improvement is a direct result of profitability projects aggressively being implemented. Domestic automotive replacement parts earnings are expected to shift into a profitable position in fiscal 1982.

The North American automotive replacement parts division's marketing channels include 17 wholesale warehouses, 125 ''company-owned'' jobber stores, 50 automotive repair machine shops, 9 automotive paint and body-shop supply stores, and 105 associate stores, all identified as ''STEEGO'' domestically and ''McKerlie-Millen'' in Canada. Geographically, 62% of sales revenues are derived from Canada and 38% from the U.S. The geographic propinquity between the huge U.S. and Canadian automotive aftermarkets greatly extends the Company's marketing base.

The North American automotive aftermarket is growing despite the transitory negative effect upon demand precipitated by the dramatic increase in the price tag on new cars, the sharp drop in the trade-in value of used cars (precipitated by the introduction of downsized, low fuel consumption vehicles), and the inhibiting impact of high-cost auto financing.

The resultant of these strong market forces is being manifested in the increasing average age of vehicles in use. The average age of the U.S. vehicle population is projected to extend out to at least 7.5 years by calendar 1990, compared to about 5.5 years during the 70's. The Canadian aftermarket pattern should parallel this experience. U.S. auto unit population, as a result, is projected to incrementally increase beyond 190 million units by 1990 vis-a-vis approximately 150 million units in 1980. From STEEGO's standpoint, the build up of the aftermarket demand for parts resulting from the increasing proportion of failure-prone, high-R.P.M., lightweight units and aging vintage units should promote sales by the automotive replacement parts division.

In the future, STEEGO intends to carve out a greater share of this market. The eye catching ''STEEGO'' and ''McKerlie-Millen'' standard identifications, prominently displayed throughout the markets served, are symbols of the Company's aggressive marketing organization.

The Company is systematically strengthening its marketing system, undaunted by transitory market conditions. Expansion of STEEGO's automotive replacement parts division is progressing with emphasis placed on further penetration of existing, and expansion into contiguous, markets.

Programs under way in fiscal 1982 are concentrated upon opening or acquiring additional captive jobber stores, recruiting additional associate jobber stores (all clustered about existing warehouses) and enlisting a greater number of warehouse-dependent accounts. Exciting merchandising programs to raise sales performance by existing jobber stores are being implemented. This supporting sales strategy focuses on exploitation of the full sales potential of the customer's shopping visits to STEEGO's outlets by applying one-stop merchandising tactics. This marketing scheme involves offering a wider assortment of discretionary-type merchandise, including auto radios, special accessories and a limited selection of nonautomotive merchandise, as well as the usual nondiscretionary repair parts.

In the beginning of fiscal 1982 a large new full-line warehouse was opened in the fast-growing Florida west coast market (Ft. Myers). This modern sunbelt warehouse distribution center will serve both STEEGO's cluster of company-owned stores and the independent jobber store customers located in the Florida west coast district.

The agri-equipment replacement parts division's fiscal 1981 sales slipped to $12.3 million, 10.6% under the $13.8 million sold last fiscal year. Coincidently, the division's operating income was 9.5% lower at $1.9 million compared to last year's $2.1 million. Gross margin actually increased and offset some of the combined negative effects of the drop in revenue and the expense of higher interest.

Herschel markets agri-equipment replacement parts and expendable ground prepa-

An automatic electric hardening furnace utilized in the heat treating process in manufacturing agri-equipment replacement parts such as sweeps and shovels, which are used for crop preparation.

ration tools and crop cutting mechanisms through a broad network of independent farm equipment distributors and dealers and directly to original equipment manufacturers. End user demand for these essential farming related items was restrained by the transitory side effects of last year's international grain carryover and the existence of a severe drought in the Midwest.

During the past two fiscal years additional manufactured product lines were introduced to materially raise sales revenues and to add more ''value added'' work in the Indianola factory. (Herschel manufactures 40% of the products it markets.) The new disc blade line and tillage tools line are enjoying excellent market acceptance. The recently introduced multi-cut cutting blade (called the ''Tiger Tooth'') has received excellent market reception.

The demand for Herschel's specialized products should progressively turn stronger during fiscal 1982 primarily because total crop acreage being planted, cultivated and harvested is greater than last season. This, plus the recent lifting of the U.S. grain embargo, should eventually increase farmed acreage.

Secular improvement in commodity prices will favorably increase demand for farm products and, collaterally, agri-parts. The agri-equipment parts division is projecting higher sales and a moderate operating gain in fiscal 1982.

Printing and Allied Products

The printing and allied products division's sales reached $10.2 million in fiscal 1981, up 17.3% above the $8.7 million reported last fiscal year. Operating income rose to $1,012,000, a modest increase over the $994,000 reported last fiscal year. The division performed exceptionally well despite reduced demand caused by the depressed state of the economy and fierce price competition in some lines.

This division's innovative marketing organization is constantly introducing specialized expendable office products into the market. The division's production organization is very supportive of marketing needs as it continues to materially reduce conversion costs. During the past three fiscal years, major progress has been made to cut unit cost by streamlining manufacturing methods, installing modern conversion equipment and introducing sophisticated cost-saving processes. Approximately $500,000 has been invested in capital equipment during that recent period.

Cesco "one write" accounting systems are among several expendable product lines manufactured by the Cesco division of Elbe. Custom vinyl binders for today's paperwork environment are manufactured by Elbe.

Though demand during most of fiscal 1981 for these expendable products lacked luster, the ongoing build up in the number of personal and business transactions is multiplying thereby increasing the need for products manufactured by this division. In fiscal 1982, the printing and allied products division is expected to moderately increase sales and operating income.

DURABLE GOODS

Transportation Equipment

The transportation equipment operations include the designing, manufacturing and marketing of a variety of configurations of commercial wheel-type, over-the-road trailers and truck bodies. Specialized solid waste handling equipment also is marketed in Canada. Company owned branches service trailers and sell truck and trailer replacement parts and accessories. The primary market served is the Mid-South region of the U.S.

Metal Working Machinery

The metal working machinery operations include the assembling, marketing and distribution of standard and special metal cutting and metal working machinery along with accessory attachments and other related industrial supplies. Machinery sold is sourced domestically and foreign. The North American market demand for metal working machinery is growing in response to the need to update and expand industrial capacity, and upon raising productivity.

Fabricated Metal Products

The fabricated metal products operations (Canada), performed on a contract basis, includes engineering, fabricating and assembling of large industrial process sub-components and related equipment and structures. National emphasis upon developing energy sources, controlling the environment, and normal modernization of industrial capacity have impact upon demand for these products and activities.

DURABLE GOODS

The Durable Goods Segment's fiscal 1981 sales increased to $124.8 million, up 15.3% above the $108.2 million reported the prior year. Fiscal 1981 operating income amounted to $5.6 million, a 4.9% increase, versus $5.4 million experienced last year.

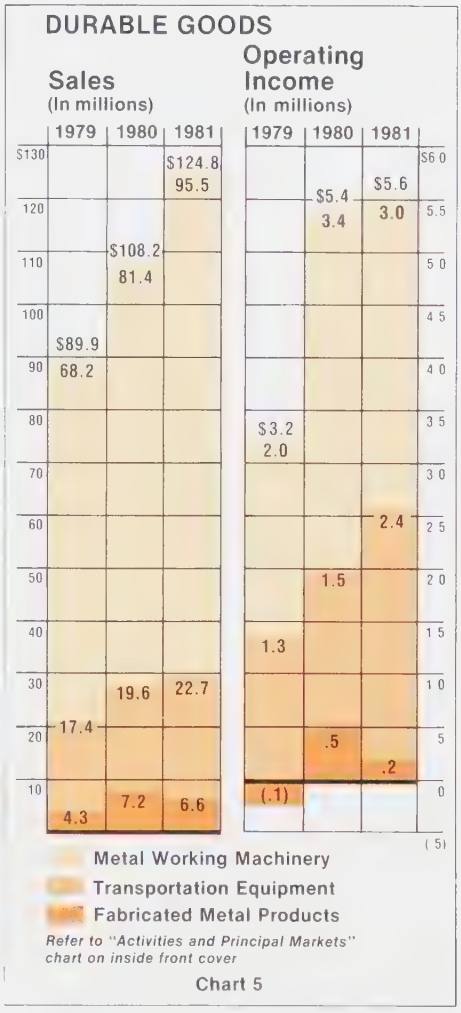
Transportation Equipment

The U.S. transportation equipment division's fiscal 1981 sales reached $18.9 million, up 15.2% over the $16.4 million sold last fiscal year. The division's operating profit in fiscal 1981 reached $2.2 million, a surge of 34.8% over the previous year's $1.7 million. This accomplishment is commendable considering that most commercial trailer manufacturers have suffered a serious sales decline. Management anticipated the development of a sluggish market for standard freight-trailer units and, in response, shifted its sales efforts towards the special application trailer market, i.e., heavy-duty, lowboy trailers for oil field use and for handling heavy equipment and trailer units used for special oil field service applications. The success of this strategy is evidenced by Nabors' performance. The backlog of unfilled orders remains at over $6 million.

The arrangement of Nabors' production facilities incorporates maximum manufacturing flexibility, permitting quick response to shifting market conditions and changes in product mix.

During the past 18 months, motor freight companies have suffered from the disruptive effects of Federal deregulation of trucking. This environment has altered operating patterns and stimulated rate competition. The effect of a slow economy and high interest costs have further depressed trailer demand. Nonetheless, the country's overall economic growth trend is upward and will override current conditions, especially since the U.S. economy's huge flow of goods moves primarily over the highways. The constant flow of goods will expand in direct cor-

A Nabors four axle heavy-duty lowboy trailer is constructed to meet the special design needs for hauling large energy pressure vessels.



Logging pole trailers manufactured by Nabors Trailers are built to take the punishment of heavy loads and rugged terrain.

relation to the increase in population. During this dismal period, many trucking companies deferred capital expenditure and cut maintenance budgets. Ultimately, replacement of these ''run down'' fleets will create an increased demand for new trailer units.

The Canadian domiciled solid waste handling equipment division increased sales by 20.2%, the third successive year when the previous year's volume has been exceeded. The market for this handling equipment is growing. The daily cubic volume of all categories of solid waste being generated within all communities is steadily increasing. The pressure from this increase assures a rising demand for specialized stationary and truck-mounted equipment required for collection, storage, transfer and interim processing of waste. The marketing organization has demonstrated its capability to carve out a larger share of this specialized market. During the year the waste handling equipment plant was expanded to support a higher volume level. The existing $1.3 million backlog, as well as additional sales, can now be accommodated.

Metal Working Machinery

Metal working machinery sales in fiscal 1981 increased to $95.5 million, 17.3% greater than the $81.4 million recorded last fiscal year; however, operating income, primarily as a result of currency translation adjustments, declined 11.5%. The sales performance in both the U.S. and Canada was commendable. Approximately 10% of the division's sales are repeat orders for expendable tools and supplies. Sales of the U.S. and Canadian divisions amounted to 80% and 20% of segment revenues, respectively. Fiscal 1981 broke all previous sales records and was the eighth successive year that previous year's sales were surpassed.

This sharp rise in the machine tool group's revenues reflected a corresponding increase in the machine tool suppliers' shipping rates to fill previously booked sales orders. Now, however, the trend is reversing; and consequently, the group's new order input rate to its suppliers is at a lower rate than the suppliers' accelerating shipping rate. Coincidentally, the group's backlog of unfilled orders with its suppliers is shrinking. Though the machine tool group expects new order input to increase later in 1982, the suppliers' lengthening delivery lead time at that point could cause a shipping gap, resulting in lower fiscal 1982 revenue. The Canadian machine tool demand presently is more buoyant than the U.S. counterpart; nevertheless, the same selling cycle prevails, which will make it difficult to maintain present revenue levels through fiscal 1982.

Management believes the Machine Tool Segment will capitalize on a surge in demand arising from replacement of technologically outdated machinery. Continuing inflationary pressures upon direct labor cost make modern multi-axis, high-speed, computer-oriented production machinery an economic necessity today.

Demand for sophisticated metal cutting and forming machinery also should be stimulated by U.S. tax reforms allowing more generous investment credits and faster depreciation, all aimed at encouraging industry to replace vintage installations. Canadian industry already enjoys a liberal tax package relating to investments in new production machinery.

The machine tool group is doing its utmost to fully exploit evolving marketing opportunity by capitalizing on its sales force's indepth machine tool marketing experience. This effort includes geographic expansion to fill any existing gaps in the core marketing territory. Hoffman-Marquard Machinery Company, a leading regional machine tool dealer located in St. Louis, Missouri, was recently acquired to fill the geographic void in the domestic division's southern parameter.

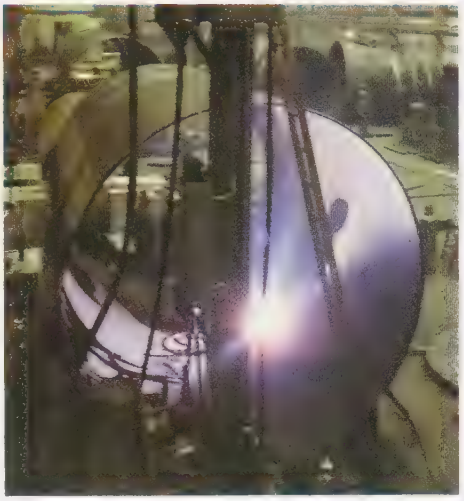
VDF Wohlenberg deephole boring machine systems with workpiece weights up to 63 tons and driving power to 220 H.P. are imported and distributed by Unisig.

Giddings & Lewis NUMERILATHE, equipped with the latest G & L computer controls, taking a quarter inch cut in hot-rolled steel, roughing out 3 inch ball nuts four times faster than was previously possible on a manual turret lathe.

Unitec also is expanding its in-house technological capabilities in the highly sophisticated machining and tooling fields. This expansion follows the ''shared technology'' approach. The Swiss Industrial Group's (''SIG'') wealth of technological experience in the field of specialized, numerically controlled, high-speed deep hole boring machines, including related tooling and attachments, was tapped. This technology is applied in the production of precision components for oil tools, industrial products, aerospace and armament. A joint venture, Unisig Corporation, was formed; 55% is owned by Unitec and 45% is owned by SIG. Its products and services are sold nationwide. Though the joint venture did not report a profit in its initial year, the end result was a success after considering the heavy start-up costs related to opening a plant in Elgin, Illinois, and a service center in Houston, Texas. Unisig's operations turned profitable in the fourth quarter of fiscal 1981 and the backlog of unfilled orders should result in profitable operations in fiscal 1982.

Fabricated Metal Products

The Canadian fabricated metal products division's fiscal 1981 sales were $6.6 million, down from last year's $7.2 million. Fiscal 1981 operating income declined to $253,000 from $451,000 the previous year. Primary activities include the manufacture and fabrication of complete units and preassembled components or sections to be completed on the job site, all related to industrial installations for power generation, processing, petroleum, mining and basic metals. The Canadian markets for these products have been depressed in the past two years; nevertheless, the $4 million backlog of work at year end provides a head start on fiscal 1982. During fiscal 1981 the metal fabricating department completed its portion of the huge Hinds Lake, Newfoundland, hydroelectrical installation consisting of a large diameter, mile-long, Penstock. This challenging undertaking was completed on schedule and the prime contractor wrote a letter of commendation



extolling the high-quality workmanship and on-time performance. The size and scope of this project is testimony to the division's technical capabilities.

A vigorous program designed to broaden the line of proprietory engineered products and to increase in-plant fabricated content in the sales mix for this division is under way. The engineered products department of the division recently entered into licensing agreements covering a complete line of vibratory material handling equipment used for moving granular bulk materials. This new line helps complement the division's existing line of bins and hoppers. Sales in the initial year from this product source exceeded budget and should reach a much higher level in fiscal 1982. This additional proprietory products volume will absorb a greater proportion of fixed factory overhead because of higher utilization of plant capacity. The search for additional product lines and licenses is ongoing.

During the past two years, capital spending by heavy Canadian industry for facilities has been curtailed. Management predicts the capital expenditure cycle in Canada will resume growth in the 80's.

The mile-long Hinds Lake Penstock consumed 6 million pounds of steel. The sections were shop fabricated, then site assembled with A.M.I.'s 150-ton crawler crane. Workmanship of the highest quality was mandatory with all welds subjected to x-ray inspection.

SERVICES

Engineering Services

The consulting engineering services organization performs civil and process engineering assignments including master planning, design and engineering, environmental impact studies, project management and procurement and construction supervision.

Import-Export

STEEGO provides comprehensive import-export services for independent manufacturers and STEEGO's subsidiaries.

Financial Services

The financial services operations are conducted by STEEGO's 90.5% owned Milwaukee Western Corporation functioning primarily through 100% owned Bayou Acceptance Corporation ("Bayou"). Bayou offers to the trade in the mid-south market area, commercial financing and lease financing relating to selective categories of commercial equipment such as freight and heavy-haul trailers, industrial machinery and certain categories of office equipment.

Real Estate

Large tracts of raw land were acquired for future resale as unimproved land or as improved residential or commercial building sites. The Company also is lessor of agricultural land.

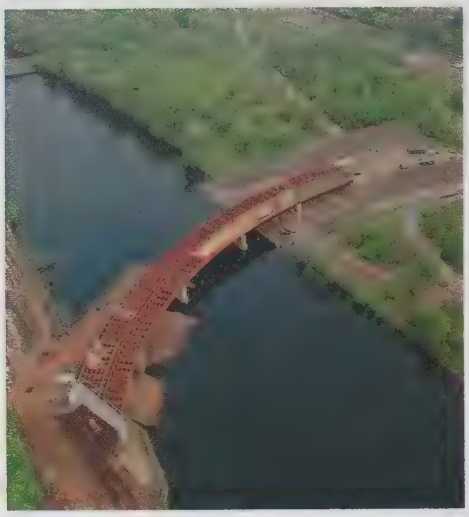
The Services Segment includes consulting engineering services, import-export services, financial services, and real estate activities.

The consulting engineering division in fiscal 1981 increased billings 40% over the previous fiscal year and recorded strong profit improvement. This division was acquired during the first half of fiscal 1979. Management, in the early period of STEEGO's ownership, was intensively involved in undertakings to overcome operating problems relating to uncompleted contracts, accounting complications, and staffing requirements.

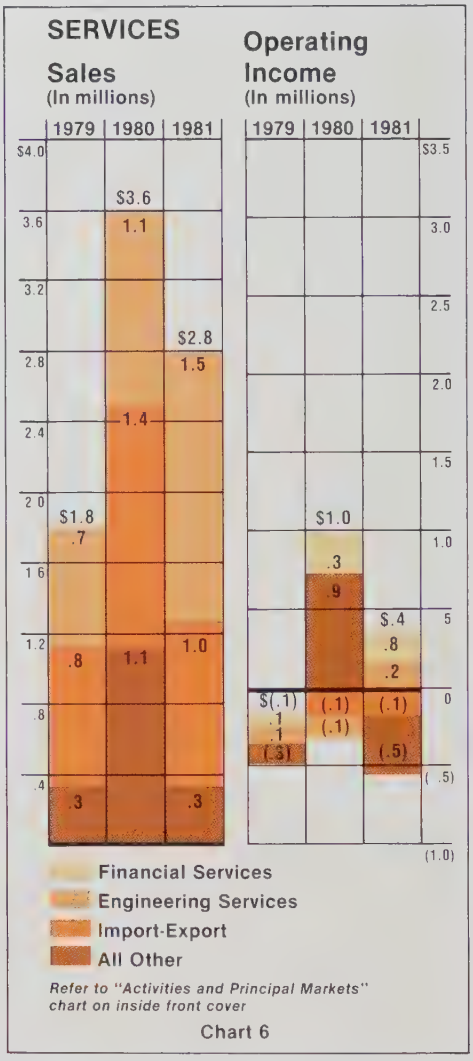
Since then, the business has made spectacular progress by hiring experienced engineering management; enlisting special engineering disciplines; revitalizing marketing activity; and installing accounting controls. Increasing revenues and order backlog (now amounting to one year's work) are manifestations of this progress.

Considerable time and attention was devoted to identifying important engineering opportunities. The determination was made that present King & Gavaris clients offered the greatest near-term sales potential, as these clients' needs matched the division's existing engineering disciplines and could be easily revitalized. An

Construction Engineer supervising field work for the Highway Design department of King & Gavaris.



Construction nearing completion on the Raritan River Bridge in New Jersey designed by King & Gavaris Consulting Engineers, Inc.



Refer to "Activities and Principal Markets" chart on inside front cover

Chart 6

example is the timely completion of a Nigerian government contract involving extensive highway and bridge engineering. This undertaking was completed on schedule and as a consequence of that good performance a sizeable add-on contract was awarded. This tangible result is also typical of progress being made with domestic clients.

Management foresees an exciting future unfolding for this professional group. The division possesses a wealth of engineering experience and an impressive client list. Accordingly, engineering services are expected to contribute heavily to STEEGO's revenues in the 80's.

The import-export division did not attain its budgeted sales and profit goals in fiscal 1981. Sales slipped to $1 million, 30% below the $1.4 million recorded the previous fiscal year. Sales were adversely affected by the unsettled conditions in the Middle East.

Existing backlog and an increasing rate of incoming orders should result in higher fiscal 1982 sales and a return to profitability.

The financial services division is now composed of 90.5% owned Milwaukee Western Corporation (''MWC'') and its wholly-owned commercial finance subsidiary, Milwaukee Western Bank having been sold on December 31, 1980. MWC's fiscal 1981 operating income from continuing operations, before taxes, increased to $1.1 million, 2.9 times greater than the $382,000 earned last fiscal year.

The commercial finance subsidiary, Bayou, presently the principal source of MWC's income, increased pre-tax income to a record $615,000 in fiscal 1981 as compared to $374,000 in 1980; $286,000 in 1979; $220,000 in 1978; and $150,000 in 1977. Bayou's steady increase in operating earnings over the past five fiscal years was primarily caused by the progressive build up of interest earning assets. Outstanding finance receivables increased from $2.9 million in fiscal 1977 to $8.9 million in fiscal 1981. Bayou has, over the last five successive years, increased the finance receivables portfolio at a compounded growth rate of 34.5%. Importantly, during this same time frame, deferred interest income related to the outstanding receivables balance has increased from $560,000 in fiscal 1977, up to $1.8 million in fiscal 1981; now equal to 21% of the total outstanding portfolio.

During these past five years, Bayou managed to contain the net cost of borrowed funds within competitive parameters. The average cost of funds during fiscal 1977 was 7.2%, whereas the average during fiscal 1981 had risen to 14.2%. This average cost is comparatively low when compared to the posture of most borrowers of external funds. Non-interest sensitive expenses have also been tightly controlled rising only 11.1% compounded in five years.

MWC invested in, or lent to, Bayou an aggregate of $1,500,000 in January, 1981. Thus, the stage is set for further growth in fiscal 1982. MWC's highly liquid position resulting from the sale of the Bank not only permits faster internal growth but also permits management the opportunity to explore additional investment possibilities and the restructuring of its capital accounts.

Real estate activities are confined primarily to liquidating long-term investments, principally large acreage located in Arizona and homesite acreage located in Michigan. However, the Company presently intends to operate, through lessees, Greater Arizona Ranches.

Steego Trading Corporation distributes U.S. manufactured products to many foreign ports.

CORPORATE DIRECTORY

BOARD OF DIRECTORS

J. Russell Duncan

Matthew E. Carroll

Dean H. Anderson

Frank H. Habicht

Paul G. Desmarais
(Photo Not Available)

Rufus W. Hanson

Edgar D. Mitchell, Sc.D.

John H. Schuler

Howard M. Thurman

CORPORATE OFFICERS

William W. Curtas

Robert A. Lawton

Arthur E. Smith

Gregory L. Stone

John J. Whelan

BOARD COMMITTEES

Executive:
J. Russell Duncan, Chairman
Matthew E. Carroll
Howard M. Thurman

Compensation and Option:
Howard M. Thurman, Chairman
Dean H. Anderson
Rufus W. Hanson

Audit:
Howard M. Thurman, Chairman
Dean H. Anderson
Edgar D. Mitchell, Sc.D.

BOARD OF DIRECTORS

J. Russell Duncan
Chairman of the Board and Treasurer, Steego Corporation
Matthew E. Carroll
President, Steego Corporation
Dean H. Anderson
Vice President, Atlas Bradford Division of NL Industries
Paul G. Desmarais
Chairman, Power Corp. of Canada, Ltd.
Frank H. Habicht
Vice President, Steego Corporation
Rufus W. Hanson
Retired Vice President, First National Bank of Minneapolis, Minnesota
Edgar D. Mitchell, Sc.D.
Self-employed Consultant; Former Astronaut
John H. Schuler
Executive Vice President, Steego Corporation
Howard M. Thurman
Senior Vice President and Executive Trust Officer, Texas American Bank

CORPORATE OFFICERS

William W. Curtas
Controller
Robert A. Lawton
Vice President, Steego Corporation; President, Steego Parts Corporation
Arthur E. Smith
Vice President
Gregory L. Stone
Vice President, Steego Corporation; President, McKerlie-Millen, Inc.
John J. Whelan
Corporate Secretary

SUBSIDIARY EXECUTIVES

William H. Allen
Executive Vice President, King & Gavaris Consulting Engineers, Inc.
Thomas A. Breckles
President, Upton, Bradeen & James, Ltd.
Klaus Eberius
President, UNISIG Corp.
Werner G. Goering
President, Greater Arizona Ranches, Inc.
James R. Kidd
President, Bayou Acceptance Corporation
Joseph H. Milne
President, A.M.I. Steego Limited
Green Rives, Jr.
President, Nabors Trailers, Inc.
Robert Schoeffler
General Manager, United Technical Corporation
Walter Veith
President, Steego Trading Corporation
James A. Vose
President, Herschel Corporation
Ralph L. Weaver
President, Elbe Products, Inc.

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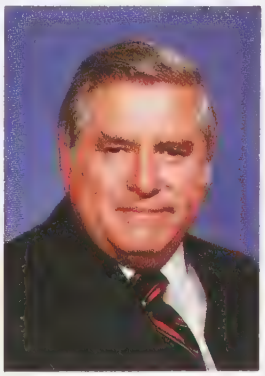
James A. Vose

Ralph L. Weaver

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REPORT OF ARTHUR YOUNG & COMPANY CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors and Stockholders
Steego Corporation

We have examined the accompanying consolidated balance sheets of Steego Corporation and subsidiaries at April 30, 1981 and 1980, and the related consolidated statements of income, stockholders' equity and changes in financial position for each of the three years in the period ended April 30, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Steego Corporation and subsidiaries at April 30, 1981 and 1980, and the consolidated results of operations and changes in financial position for each of the three years in the period ended April 30, 1981, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

Miami, Florida
June 12, 1981

FINANCIAL REVIEW

Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries, except Milwaukee Western Corporation (a 90.5% owned financial subsidiary) and its subsidiaries. The investment in unconsolidated subsidiaries is carried at cost plus equity in accumulated earnings since formation. Intercompany transactions have been eliminated in consolidation.

The cost of investments in consolidated subsidiaries over net assets acquired subsequent to October 31, 1970 (approximately $982,000 at April 30, 1981) is being amortized over 40 years on a straight-line basis. The excess cost prior to that date is not being amortized since, in the opinion of management, the underlying values have not diminished.

Currency Translation

The Company has complied with the provisions of the Financial Accounting Standards Board Statement #8 (FASB #8) which requires that balance sheet accounts of Canadian operations representing cash and amounts owed to or by the Canadian companies be translated at exchange rates prevailing at the end of the period. Balance sheet accounts representing non-monetary assets, principally inventories and fixed assets, are translated at historical exchange rates. Income statement items, other than the effect of translating inventories and depreciation at historical rates, are translated at average exchange rates prevailing during the year. Gains and losses that result from the translation of Canadian currency are included in income in the periods in which they arise.

The translation of the Canadian accounts resulted in net losses of $1,252,000 (1981), $38,000 (1980) and $1,381,000 (1979).

Canadian Operations

Summary financial information for Canadian subsidiaries, translated in accordance with FASB #8, is included in the consolidated financial statements as follows:

	(In thousands) 1981	1980	1979
For the year			
Net sales	$90,232	$82,489	$70,546
Net income	1,593	2,769	870
At year end			
Identifiable assets	$44,850	$41,008	$39,817
Total liabilities	19,382	16,194	17,688

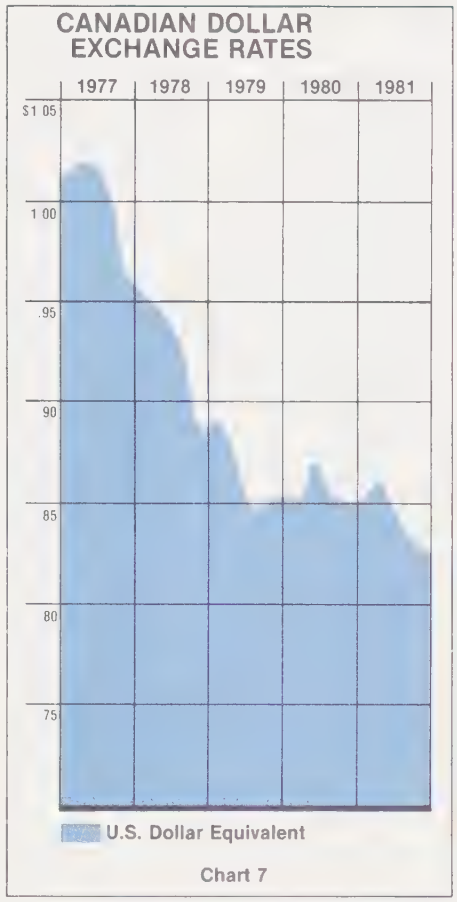

Chart 7

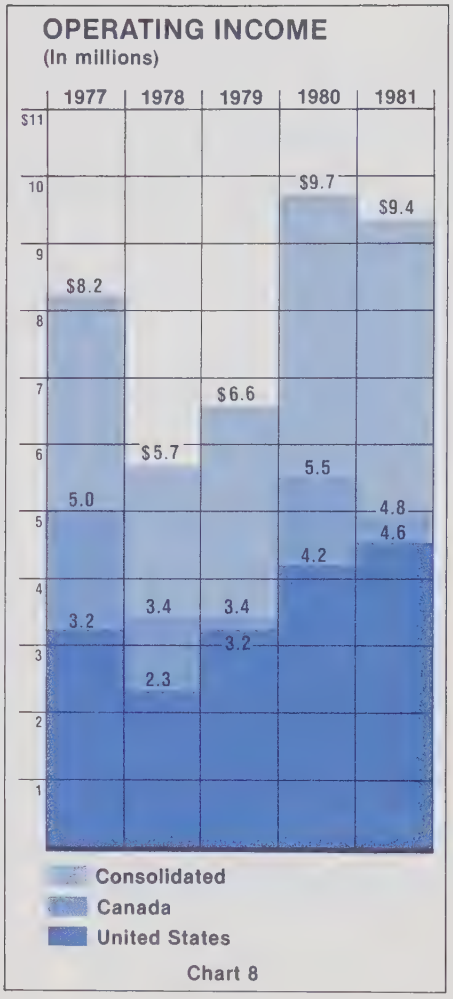

Chart 8

Depreciation

Depreciation and amortization are provided over the estimated useful asset lives, principally on the straight-line method. Maintenance and repairs of property, plant and equipment are charged to operations. Renewals and betterments are capitalized. When properties are retired or otherwise disposed of, the asset and related accumulated depreciation thereon are removed from the accounts and the resulting gain or loss is charged or credited to income.

Original Issue Discount

The original issue discount recorded in connection with the Company's 14¾% subordinated debentures and related financing costs are being charged to income over the life of the bonds.

Warrants

The value ascribed to the warrants issued in connection with the Company's 8¾% notes and related financing costs are being charged to income over the life of the notes.

Taxes on Income

The Company and its United States subsidiaries file a consolidated Federal income tax return. The Company's Canadian subsidiaries file separate Canadian Federal income tax returns.

Investment tax credits are treated as a reduction of Federal income taxes in the year the credit arises.

The Company does not provide for U.S. taxes on undistributed earnings of its Canadian subsidiaries because those earnings are considered permanently invested.

Advances and Deposits

The Company's metal working machinery subsidiaries are often required, in the normal course of business, to make deposits with suppliers prior to the delivery of machine tools. Customers, in turn, make advances on such purchases. Accordingly, customer advances of $1,111,000 (1981) and $2,321,000 (1980) have been included in accrued liabilities, and deposits with suppliers of $1,063,000 (1981) and $2,846,000 (1980) are included in prepaid items.

Treasury Stock

The cost of 800,444 shares of common stock of the Company at April 30, 1981 held by Milwaukee Western Corporation has been eliminated from the Company's investment therein and reclassified to treasury stock for financial statement purposes.

Industry Segment Reporting

The Company is engaged principally in manufacturing and distribution businesses. Major industry segments include Replacement Parts, Fabricated Metal Products, Transportation Equipment, and Metal Working Machinery. Other businesses include Printing and Allied Products, Engineering Services, Import-Export, Real Estate and Financial Services. Reference is made to the "Financial Information by Industry Segments," "Financial Information by Geographic Areas" and the "Primary Commercial Activities and Principal Markets Served" chart appearing elsewhere herein. Such information is an integral part of these consolidated financial statements.

Depreciation was charged to the operating income of the segments of the Company for the three fiscal years ended April 30, 1981 as follows:

	(In thousands)		
	1981	1980	1979
Replacement parts	$1,218	$1,104	$956
Metal working machinery	77	45	118
Transportation equipment	242	195	171
Fabricated metal products	168	165	144
Other industry segments	704	567	373

Capital expenditures were made by each of the Company's segments for the three fiscal years ended April 30, 1981 as follows:

	(In thousands)		
	1981	1980	1979
Replacement parts	$1,955	$3,211	$1,695
Metal working machinery	601	88	25
Transportation equipment	390	619	292
Fabricated metal products	412	283	190
Other industry segments	402	1,035	1,765

Taxes on Income

Tax Provision

The provision for United States (Federal and state) and Canadian taxes on income from continuing operations is composed of the following components:

	(In thousands)								
	1981			1980			1979		
	United States	Canada	Total	United States	Canada	Total	United States	Canada	Total
Current	$ 956	$2,273	$3,229	$ 371	$1,785	$2,156	$ 578	$1,526	$2,104
Deferred	197	(203)	(6)	384	62	446	—	10	10
Total taxes	$1,153	$2,070	$3,223	$ 755	$1,847	$2,602	$ 578	$1,536	$2,114

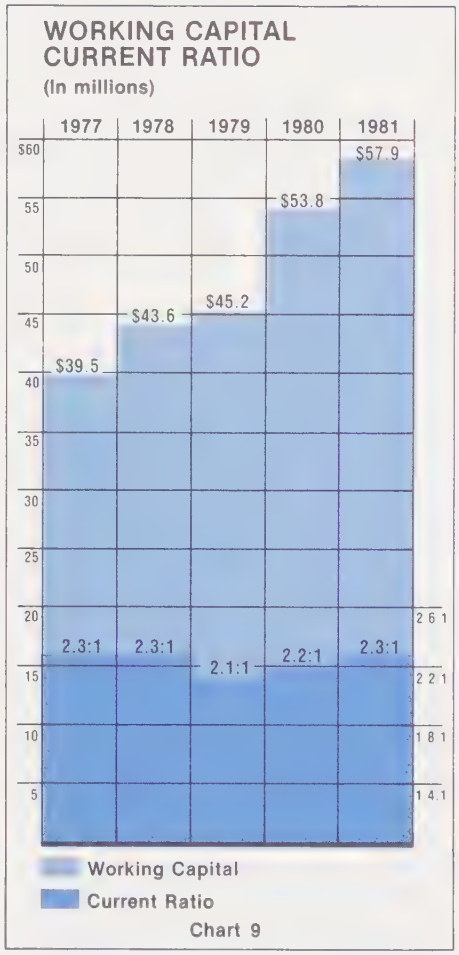

Chart 9

The provision for United States taxes on income from discontinued operations of the financial subsidiary for the eight months ended December 31, 1980 was $519,000 and for the two fiscal years ended April 30, 1980 was: $650,000 (1980) and $596,000 (1979).

Provisions have been made for prepaid or deferred income taxes where differences exist between the period in which transactions affect taxable income and the period they enter into the determination of income for financial statement purposes.

Deferred income taxes arising from timing differences between financial and tax reporting consist of the following:

	(In thousands)		
	1981	**1980**	**1979**
Excess of tax over book depreciation	$144	$212	$129
Land sales reported on installment method	(89)	172	(134)
Miscellaneous items (net)	(61)	62	15
Total deferred tax provision	$(6)	$446	$ 10

The principal factors causing variations between the statutory U.S. tax rate and the resulting consolidated effective rates are as follows:

	(In thousands)		
	1981	**1980**	**1979**
Income from continuing operations before taxes on income	$6,349	$6,366	$4,153
Statutory rate	46%	46%	46%
Expected income tax	2,920	2,928	1,910
Tax effect of:			
State income tax	152	150	136
Non-taxable foreign exchange (gain) or loss	375	(150)	509
Difference in Canadian tax rates	271	223	136
United States investment tax credit	(174)	(157)	(185)
Canadian inventory allowance	(303)	(335)	(256)
Miscellaneous items (net)	(18)	(57)	(136)
Provision for taxes on income	$3,223	$2,602	$2,114

It has been the practice and is the present intention of the Company to reinvest the undistributed earnings of Canadian subsidiaries in those operations; therefore, U.S. income taxes have not been provided on such earnings. In the event these earnings were remitted to the Company, foreign tax credits would be available to offset a substantial portion of such tax. The aggregate amount of such undistributed earnings was $22,421,000 at April 30, 1981.

Tax Returns

The Company's U.S. and Canadian Federal income tax returns have been examined by the United States Internal Revenue Service or the Canadian Department of National Revenue Taxation and have been settled for all years through 1978 and 1976, respectively.

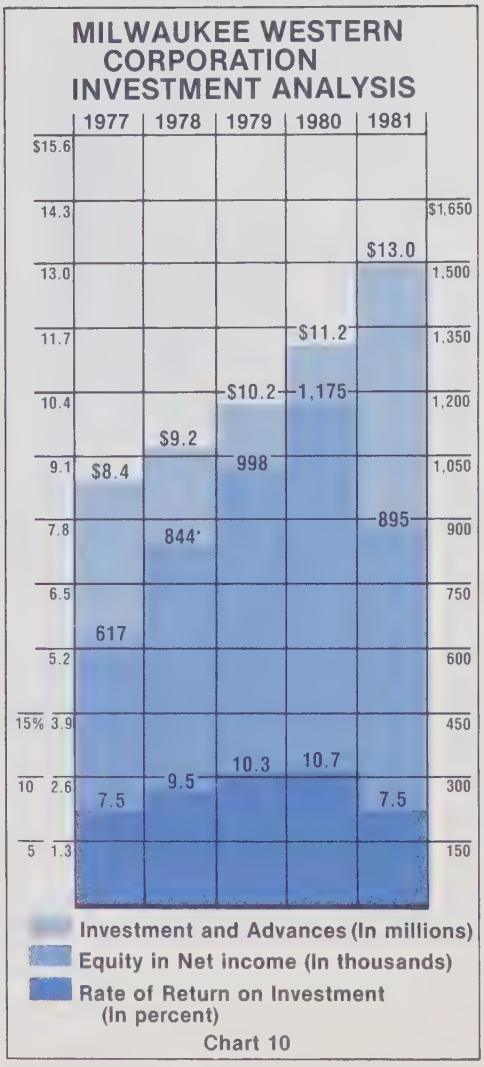

Chart 10

Investment in Financial Subsidiary

The condensed consolidated balance sheets of Milwaukee Western Corporation and its subsidiaries at April 30, 1981 and 1980 and the related consolidated summary of income for the three fiscal years ended April 30, 1981 are as follows:

	(In thousands) 1981	1980
Assets		
Continuing operations	$ 21,620	$ 9,106
Discontinued operations	—	93,054
Total assets	$ 21,620	$102,160
Liabilities		
Continuing operations	$ 6,616	$ 5,360
Discontinued operations	—	82,784
Stockholders' Equity	15,004	14,016
Total liabilities and stockholders' equity	$ 21,620	$102,160

	(In thousands) 1981	1980	1979
Summary of Income			
Income from continuing operations	$ 626	$ 197	$ 109
Income from discontinued operations	362	1,101	994
Net income	$ 988	$1,298	$1,103
Steego Corporation's equity in net income	$ 895	$1,175	$ 998

On December 31, 1980, Milwaukee Western Corporation ("MWC") sold its 68.6% interest in Milwaukee Western Bank (the "Bank") for an aggregate purchase price of $12,985,000, composed of $6,800,000 in cash and nineteen negotiable promissory notes representing the balance of the purchase price. As a result of this transaction, the equity in net income of the Bank has been segregated in the consolidated financial statements as discontinued operations of financial subsidiary. The sales price was sufficient to enable MWC to recover its investment in the Bank, including taxes payable as a result of the Bank's cumulative undistributed earnings, and there was no material gain or loss on the disposition.

Property, Plant and Equipment

Property, plant and equipment consists of:

	(In thousands) 1981	1980
Operating properties, at cost		
Land	$ 4,825	$ 4,722
Buildings and leasehold improvements	12,872	11,370
Machinery and equipment	18,479	17,279
Total operating properties	36,176	33,371
Accumulated depreciation and amortization	(14,257)	(12,590)
Net book value of operating properties	21,919	20,781
Land held for development	1,972	1,972
Property, plant and equipment — net	$23,891	$22,753

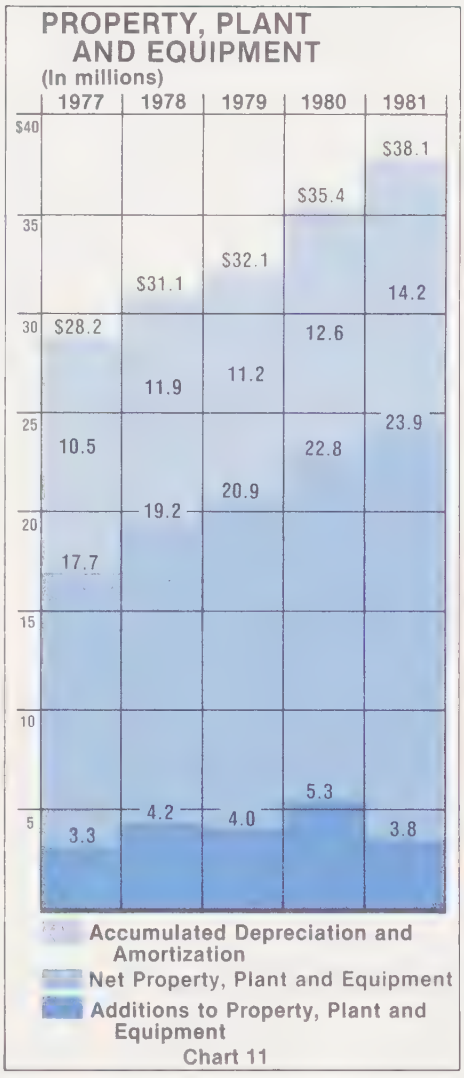

Chart 11

Notes Payable

To accommodate seasonal requirements, the Company and certain subsidiaries had unsecured lines of credit with several banks with interest at prime commercial rates.

No compensating balances were required on the subsidiaries' lines of credit, nor on the Company's line of credit totaling $2,000,000. Compensating balances equal to 7½% of the advances plus ½% on the average daily unused portion were required on the Company's $5,000,000 line of credit.

The following summarizes additional information relative to unsecured lines of credit:

	(In thousands) 1981	1980	1979
End of period:			
Outstanding borrowings	$ 300	$ 2,947	$ 2,713
Unutilized commitments	11,200	4,200	800
Compensating balances required	25	—	—
Weighted average interest rate	18%	17%	12%
During the period:			
Maximum available commitments	$11,500	$11,200	$ 3,500
Maximum outstanding borrowings at any month end	1,679	7,429	2,713
Average monthly outstanding borrowings	639	4,645	1,551
Weighted average interest rate	14%	16%	11%

Long-Term Debt

Subordinated Debentures

On March 5, 1981, the Company sold $25,000,000 of 14¾% subordinated debentures due February 15, 2001 with interest payable semi-annually commencing August 15, 1981. The debentures, which are subordinated in right of payment to all senior indebtedness, as defined, were sold at an original issue discount aggregating $3,650,000.

Annual sinking fund payments sufficient to retire $1,875,000 principal amount of debentures are required commencing February 15, 1991, calculated to retire 75% of the issue prior to maturity. The Company has the non-cumulative option to retire through the sinking fund up to an additional $1,875,000 principal amount of debentures on any sinking fund payment date. In addition, the debentures will be redeemable at the option of the Company, in whole or in part at any time, at 106% of principal amount prior to February 15, 1982 and thereafter at prices declining annually to 100% of principal amount on and after February 15, 1991, in each case together with accrued interest, except that no such redemption may be made prior to February 15, 1986 directly or indirectly using borrowed funds having an interest cost of less than 17⅜% per annum.

Senior Notes

The Company has note agreements with insurance companies, providing for loans of $12,047,000 due in 1989, payable in equal semi-annual installments of $1,076,000 inclusive of interest at 8¾% per annum, and loans of $10,000,000 due in 1993, payable in equal semi-annual install-

ments of $707,000 commencing in fiscal 1983 inclusive of interest at 9% per annum.

Concurrent with the issuance of the 8¾% notes, the Company issued to the lenders warrants to purchase 548,668 shares of its common stock, at $2.47 per share (as adjusted). These warrants expire on January 31, 1989.

During fiscal 1980 unsecured short-term notes totaling $7,000,000 were converted into long-term notes. A note in the amount of $5,000,000, due on October 31, 1982, bore interest at 107% of the lending bank's prime commercial rate. A note in the amount of $2,000,000, due on April 30, 1982, at the Company's option was borrowed in United States currency or Eurodollars for certain time periods. United States currency loans bore interest at ½% over the bank's prime commercial rate, and Eurodollar loans bore interest at from ½% to ¾% over the London Interbank Offered Rate. Compensating balances were not required under these note agreements. On March 6, 1981, the notes were repaid with a portion of the proceeds from the sale of the subordinated debentures; however, the unsecured lines of credit totaling $7,000,000 remain available (see "Notes Payable").

Revolving Credit-Term Loan Agreement

The Company had an unsecured seven-year revolving credit-term loan agreement with a bank that provided for credit availability of $7,500,000 at an interest rate of ¼% over the bank's prime commercial rate. On March 6, 1981, the outstanding indebtedness to the bank ($4,000,000) was repaid with a portion of the proceeds from the sale of the subordinated debentures and the agreement terminated.

During the period from May 1, 1980 through March 6, 1981 and the fiscal year ended April 30, 1980 the maximum amount outstanding under the revolving credit agreement was $7,500,000. The average amounts outstanding (based on month end amounts), and the weighted average interest rates were $5,670,000 and 15%, and $6,125,000 and 15%, respectively.

Restrictive Covenants

The agreements covering certain debt obligations provide for the maintenance of ratios of consolidated working capital and tangible net worth, and include covenants restricting the incurrence of liens, funded debt, certain investments and the payment of cash dividends. During fiscal 1980, the Company did not comply with certain restrictive covenants relative to current ratio, current debt and total indebtedness. Upon notification, the various lenders waived compliance with these covenants through April 30, 1980, and in July 1980, the Company obtained modifications to its note agreements; as a result, the Company is in compliance with the terms of those agreements as modified. The agreements also provide, under certain conditions, for prepayment at the option of the Company. At April 30, 1981, under the most restrictive provisions of these agreements, retained earnings of approximately $5,700,000 were available for the payment of cash dividends and for restricted investments.

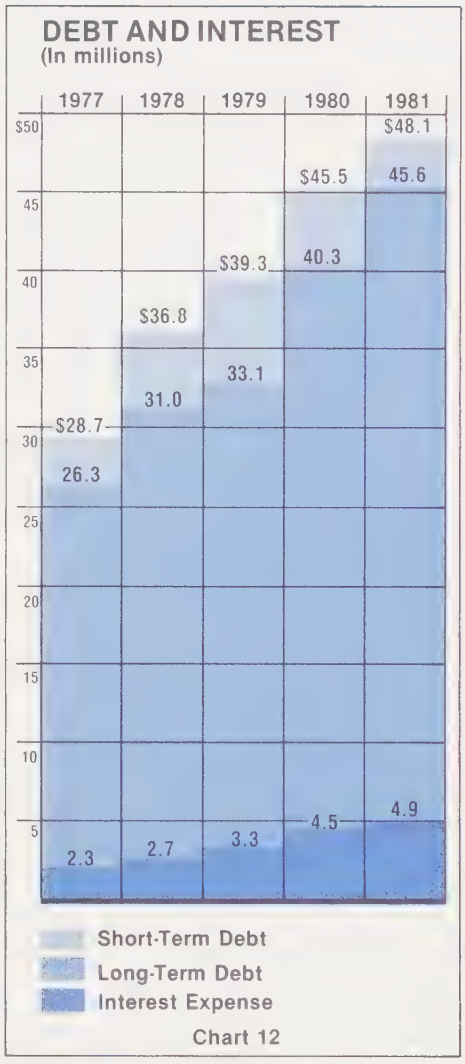

Chart 12

Long-Term Debt Consists of:

	(In thousands) 1981	1980
Senior notes:		
8¾% payable to 1989, less discount of $145,000 (1981) and $164,000 (1980)	$12,047	$13,046
9% due 1983 to 1993	10,000	10,000
Revolving credit-term loan, ¼% over prime due in installments beginning 1981	—	7,500
Note due to bank, 107% of prime due in 1982	—	5,000
Note due to bank, ½% over prime due in 1982	—	2,000
Notes due to banks, 5% and prime due through 1984	447	532
Mortgage notes, 5% to 14½% payable to 1992	1,351	1,333
Secured and other notes payable, 5% to 13% due in installments to 1991	2,522	3,180
Subordinated Debentures, 14¾% due February 15, 2001, with sinking fund requirements beginning 1991 and an effective interest rate of 17⅜%, less discount of $3,599,000	21,401	—
	47,768	42,591
Less current maturities	2,215	2,243
Long-term	$45,553	$40,348

Aggregate principal amounts payable in the four fiscal years subsequent to April 30, 1982 and thereafter are: $2,996,000 (1983), $2,521,000 (1984), $2,353,000 (1985), $2,447,000 (1986) and $35,236,000 thereafter.

Commitments and Contingencies

Pension Plans

Several of the Company's subsidiaries have trusteed retirement plans for eligible employees. Methods of funding include current costs, plus interest on past service costs, or amortization of past service costs over periods not exceeding thirty years. Based upon estimates of consulting actuaries, as of May 1, 1980 the present value of accumulated vested benefits and non-vested benefits of the Company's domestic plans were $3,319,000 and $399,000, respectively, using an assumed rate of return of 6.5%. The net assets available for such benefits at that date were $3,387,000. The Company's foreign pension plans are not required to report to certain U.S. governmental agencies and do not otherwise determine the actuarial value of accumulated plan benefits or net assets available for benefits as determined above. For those plans, the actuarially computed value of vested benefits as estimated by consulting actuaries does not exceed the value of pension fund assets plus balance sheet accruals as of May 1, 1980. The cost of the Company's pension plans including the amortization of past service costs charged to consolidated income in the three fiscal years ended April 30, 1981 was: $444,000 (1981), $328,000 (1980) and $572,000 (1979).

Lease Commitments

The Company has long-term lease commitments, principally on real estate, expiring on various dates through 1991. Certain leases require payment of property taxes, insurance and maintenance costs in addition to rental payments. During the three fiscal years ended April 30, 1981 rental payments aggregated: $2,645,000 (1981), $2,302,000 (1980) and $1,587,000 (1979). Future minimum annual rental payments on existing non-cancellable lease commitments are as follows: $1,588,000 (1982), $1,345,000 (1983), $1,105,000 (1984), $826,000 (1985), $493,000 (1986) and $852,000 thereafter.

Stockholders' Equity

Preferred Stock

The cumulative convertible preferred shares are entitled to preference of $10 per share upon liquidation or dissolution. The Company may redeem all or any part of these shares at any time. The following is a summary of the provisions pertaining to the preferred stock:

Series	Annual Dividend	Number of Common Shares Convertible Into	Voting Privilege
A	$.45	1.081	¼ of 1 vote
B	$.55	1.152	None

Warrants

Warrants expiring on January 31, 1989, provide for the purchase of 548,668 shares of the Company's common stock at $2.47 per share.

Options

The Company had two qualified stock option plans: the 1966 Qualified Stock Option Plan ("1966 Plan") and the 1975 Qualified Stock Option Plan ("1975 Plan"). At April 30, 1981, all options granted under the 1966 Plan were exercised, terminated or had expired. There are no options available for future grant under the 1966 Plan.

A summary of changes in the Company's qualified stock option plans during the three fiscal years ended April 30, 1981 is as follows:

	Shares		
	1981	1980	1979
Outstanding, beginning of year	192,494	250,985	109,472
Granted	39,900	17,850	189,172
Exercised	(7,000)	(46,241)	(23,464)
Expired	(45,110)	(30,100)	(24,195)
Outstanding, end of year	180,284	192,494	250,985

Additional information with respect to stock options granted is set forth below. Market prices in the following summary are as of the dates the stock options were granted, became exercisable or were exercised, as applicable.

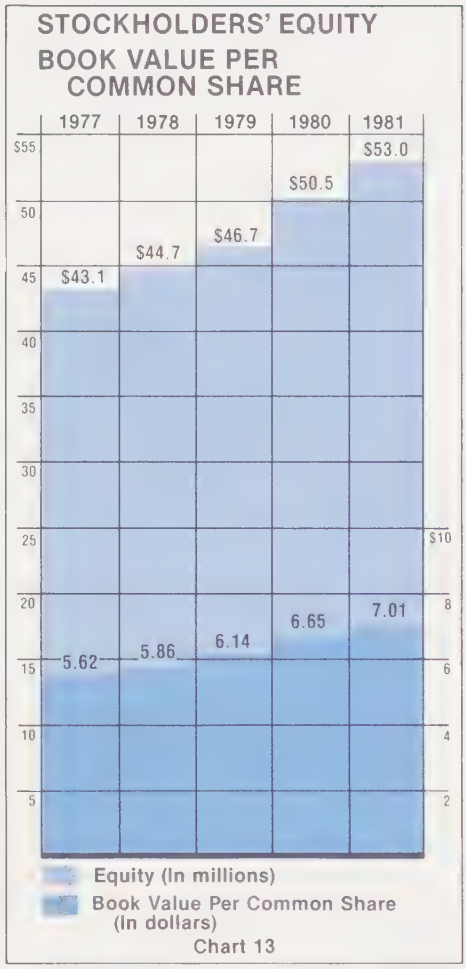

Chart 13

	Fiscal Year of Grant	Number of Shares	Option Price Per Share	Option Price Total	Market Price Per Share	Market Price Total
Options outstanding:						
April 30, 1981 ...	1979	122,534	$2.92	$357,236	$2.92	$357,236
	1980	17,850	$3.69	65,875	$3.69	65,875
	1981	39,900	$3.46	137,940	$3.46	137,940
		180,284		$561,051		$561,051
April 30, 1980 ...	1976	39,765	$3.71-$3.80	$148,062	$3.71-$3.80	$148,062
	1979	134,879	$2.92	393,230	$2.92	393,230
	1980	17,850	$3.69	65,875	$3.69	65,875
		192,494		$607,167		$607,167
April 30, 1979 ...	1975	46,241	$1.54	$ 71,188	$1.54	$ 71,188
	1976	39,765	$3.71-$3.80	148,062	$3.71-$3.80	148,062
	1979	164,979	$2.92	480,980	$2.92	480,980
		250,985		$700,230		$700,230
Options which became exercisable during:						
Fiscal 1981	1980	17,850	$3.69	$ 65,875	$3.625	$ 64,706
Fiscal 1980	1979	164,979	$2.92	$480,980	$2.95	$486,330
Fiscal 1979	1975	6,556	$1.54	$ 10,094	$3.67	$ 24,068
Options exercised during:						
Fiscal 1981	1979	7,000	$2.92	$ 20,412	$3.875	$ 27,125
Fiscal 1980	1975	46,241	$1.54	$ 71,188	$3.17-$3.97	$167,529
Fiscal 1979	1975	23,464	$1.54	$ 36,125	$2.95-$3.56	$ 75,474

Under the 1975 Plan, stock options to purchase 261,073 shares of common stock may be granted. At April 30, 1981, 73,789 shares were available for future grants. The options are granted at the fair market value on the date of grant, expire five years from date of grant, and are exercisable one year after grant. Options granted are exercisable with respect to 140,384 shares at April 30, 1981.

As a result of a recent change in United States tax law, the tax benefit of qualified stock options was eliminated and stock option plans previously qualified became non-qualified for outstanding options and future grants.

In addition to the outstanding options under the 1975 Plan referred to in the above table, the Company has granted to the Chairman of the Board and Chief Executive Officer a non-qualified stock option to purchase 110,250 shares of common stock at a price of $3.288 per share. The option is exercisable, in whole or in part and from time to time, on or prior to April 7, 1984.

Management has requested that the stockholders at the annual meeting presently scheduled for August 27, 1981, approve an amendment to the 1975 Plan to increase the shares available for grant, extend the terms of the outstanding options (including the option granted to the Chairman of the Board), and provide for the granting of stock appreciation rights.

General

At April 30, 1981, an aggregate of 1,254,062 shares of common stock were reserved for issuance upon conversion of preferred stock and the exercise of warrants and options.

All appropriate amounts have been adjusted for the 5% common stock dividends paid in January 1981, 1980 and 1979.

Earnings Per Common Share

Primary earnings per share are based on the weighted average number of common shares and common equivalent shares outstanding after giving retroactive effect to stock dividends and after deducting preferred stock cash dividends from net income. The shares resulting from the assumed exercise of the outstanding warrants and options are included in the average number of common and common equivalent shares outstanding.

Earnings per common share assuming full dilution are based on the primary computation adjusted as to options and warrants for market prices at the end of the period, when higher than the average price, and the assumed conversion of Series A and B Preferred Stock. Cash dividends on the Preferred Stock are not deducted from net income in the computation.

The number of shares used in the computation of primary and fully diluted earnings per share was as follows:

	Primary	Assuming Full Dilution
April 30, 1981	7,310,000	7,736,000
April 30, 1980	7,279,000	7,686,000
April 30, 1979	7,215,000	7,606,000

Gain on Sale of Investments

Fiscal 1980 includes a non-recurring gain of $336,000 ($242,000 after-tax, equal to $.03 per share) from the sale of investment securities, and a gain of $408,000 ($294,000 after-tax, equal to $.04 per share) from the sale of real estate investments. In addition, as part of the continuing liquidation of long-term real estate investments, the Company sold a rental property in fiscal 1980 and recognized a gain of $473,000 ($341,000 after-tax, equal to $.05 per share). Offsetting this gain, the Company wrote-off $419,000 ($.06 per share) representing the balance of goodwill attributable to its real estate subsidiaries.

Financial Information by Fiscal Quarter — Unaudited

Refer to page 38 of this annual report for a summary of unaudited financial information by fiscal quarter.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Fiscal 1981 Compared to 1980

Consolidated sales increased $18.9 million, or 8%, to a record $249 million from $230.1 million in fiscal 1980. Domestic sales, which represent 64% of consolidated sales, rose $11.1 million, or 8%, while Canadian sales rose $7.7 million, or 9%. Canadian sales were reduced by translation adjustments of $15.9 million in fiscal 1981 and $13.9 million in fiscal 1980.

Sales of the Replacement Parts and Printing and Allied Products ("non-durable goods") divisions rose $3.1 million, or 3%, to $121.4 million. Domestic automotive replacement parts sales declined 4%, despite industry wide price increases of approximately 8%. The comparative sales decline was largely a result of the closing of two marginal warehouse locations during the second half of fiscal 1980. Canadian sales rose 8% after a $10.7 million negative currency translation adjustment ($9.5 million in fiscal 1980) principally as the result of price increases. Sales of the agri-equipment parts operations were 11% below fiscal 1980 primarily due to a general decline in the agri-equipment industry. Printing and allied products sales rose 17% over fiscal 1980.

Sales of the Metal Working Machinery, Transportation Equipment and Fabricated Metal Products ("durable goods") divisions increased $16.6 million, or 15%, to $124.8 million. Metal working machinery sales rose $14.1 million, or 17%. Domestic sales rose 16% while Canadian sales were up 21% after reflecting a $3.3 million negative currency translation adjustment ($2.6 million in fiscal 1980). Transportation equipment sales were 16% higher on the strength of a 15% rise in domestic trailer sales and a 20% rise in Canadian waste handling equipment sales. Fabricated metal products sales declined $575,000, or 8%.

Revenue from Engineering Services, Import-Export and Real Estate activities ("services") accounted for $2.8 million of consolidated sales in fiscal 1981. Sales from the engineering services division increased $434,000, or 40%, while import-export and real estate sales declined.

Consolidated gross margins were 22% in fiscal 1981 compared to 23% in fiscal 1980. Increased sales of lower margin metal working machinery (38% of consolidated sales in fiscal 1981 compared to 35% in fiscal 1980) was the primary reason for the decline in consolidated gross margins as a percent of sales. Operating expenses decreased to 18.6% of sales compared to 19% in fiscal 1980. The dollar increase of $2.6 million was principally the result of variable expenses related to the incremental increase in sales volume and the effects of inflation. Interest costs rose $515,000, or 12%, reflecting the increase in total debt outstanding.

The Company continues to pursue the sale of its real estate holdings; however, there were no significant sales transactions recorded in fiscal 1981. Sales of securities and real estate investments increased net income $458,000 ($.06 per share) in fiscal 1980.

The equity in income before taxes on income of continuing operations of the financial services subsidiary increased 184% as a result of higher earnings of the commercial finance operations and interest earned on the proceeds of the sale of Milwaukee Western Bank. The equity in net income of discontinued operations, which includes equity in net income of the Bank for only eight months in fiscal 1981, declined $607,000. The provision for additional taxes on undistributed earnings of the Bank during fiscal 1981 also contributed to the decline.

Unrealized currency translation adjustments reduced fiscal 1981 net income by $1,252,000 ($.17 per share) compared to $38,000 ($.01 per share) recorded in fiscal 1980.

Fiscal 1980 Compared to 1979

Consolidated sales in fiscal 1980 rose $24.9 million, or 12%, to $230.1 million from $205.2 million in fiscal 1979. Domestic sales, which represented 64% of consolidated sales, rose $13 million, or 10%, while Canadian sales rose $11.9 million, or 17%. Canadian sales were reduced by currency translation adjustments of $13.9 million in fiscal 1980 and $11.3 million in fiscal 1979.

Non-durable goods sales rose $4.8 million, or 4%, to $118.3 million. Domestic automotive replacement parts sales declined 3%. Sales in the U.S. region were, in part, reduced by the closing of the Rochester, New York, warehouse and its four satellite stores. These operations were marginal and outside the Company's strategic marketing area. In addition, subsequent to storm damage, the Toledo, Ohio, warehouse was closed. Canadian automotive replacement parts sales rose 4% after a $9.5 million negative currency translation adjustment ($8.7 million in fiscal 1979). Sales of the agri-equipment parts operations

increased 28% over fiscal 1979, which was hampered by a four month strike. Printing and allied products sales rose 12%.

Durable goods sales rose $18.3 million, or 20%, to $108.2 million. Metal working machinery sales rose $13.2 million, or 19%. Domestic sales rose 13% while Canadian sales were up 55% after a $2.6 million negative currency translation adjustment ($1.6 million in fiscal 1979). Transportation equipment sales were 13% higher (after a $537,000 negative currency translation adjustment), resulting from a 6% rise in domestic trailer sales and a 75% rise in Canadian waste handling equipment sales. Fabricated metal products sales rose $2.9 million, or 69%, after the negative impact of a $1.2 million currency translation adjustment ($683,000 in fiscal 1979).

Services accounted for $3.6 million of consolidated sales in fiscal 1980, double fiscal 1979's results. Fiscal 1979 included sales from the engineering services division for seven months compared to twelve months for fiscal 1980. Import-export sales were up 69% in fiscal 1980. Real estate sales rose 214% as a result of the sale of a large tract of land.

Consolidated gross margins were 23% in both years but rose $5 million, or 10%, to $52.7 million. Operating expenses decreased to 19% of sales compared to 20% in fiscal 1979. The dollar increase of $2.7 million was principally the result of variable expenses related to the incremental increase in sales volume. Interest costs rose $1.1 million, or 35%, reflecting increased average borrowings at higher average interest rates.

The equity in income before taxes on income from continuing operations of the financial services subsidiary rose 80% principally as a result of a 31% increase in the commercial finance operations and a 26% reduction of administrative expenses. The equity in net income of discontinued operations of the financial services subsidiary increased 11% and represented 20% of net income (29% in fiscal 1979).

Fiscal 1980 benefited from the sales of securities and real estate investments, which in the aggregate increased net income by $458,000, or $.06 per share. Currency translation losses totaled $38,000 ($.01 per share) compared to $1,381,000 ($.19 per share) in fiscal 1979.

EFFECTS OF INFLATION

The Company's inventories are valued at cost using the FIFO method of inventory accounting and, therefore, may not be indicative of the current cost of products sold. However, as a result of the rapid turnover of much of the Company's inventory and increases in selling prices to reflect current costs, the Company feels that the major impact of inflation upon its operating results has been minimized.

Also, the Company has for many years employed strict cost control measures which have reduced the impact of inflation and partially offset increases in cost which are more difficult to control. However, the charge for depreciation reflected in the results of operations does not provide a basis for assessment of the Company's ability to maintain its operating capability. If the Company's operations were restated to reflect higher depreciation charges related to the current cost required to replace existing productive capacity and facilities, reported income would decrease.

Inflation also affects assets and liabilities when the amounts are fixed without reference to specific future prices. Although the Company's net monetary assets necessary for ongoing operations have increased, they will purchase fewer goods and services in the future. Conversely, however, future monetary assets with less purchasing power will be used to repay long-term debt which is fixed in amount in historical dollars.

LIQUIDITY AND CAPITAL RESOURCES

At April 30, 1981, working capital was $57.9 million compared to $53.8 million at April 30, 1980. Cash and certificates of deposit increased to $10.7 million from $8.8 million at April 30, 1980. Cash, accounts receivable and finished goods inventories at April 30, 1981 represent 90% and 63% of total current assets and total assets, respectively.

During fiscal 1981, working capital increased by $4.1 million compared to $8.6 million during fiscal 1980. Working capital provided from operations during these fiscal years was $5 million and $6.5 million, respectively. Capital additions of $3.8 million in fiscal 1981 and $5.3 million in fiscal 1980 were financed principally from an increase in long-term debt. The Company had $11.2 million of available lines of credit at April 30, 1981. It is anticipated that these lines of credit will be adequate to finance working capital requirements during fiscal 1982.

STATEMENTS OF CONSOLIDATED INCOME

Fiscal Year Ended April 30

	1981	1980	1979	See Financial Review Page
NET SALES	**$249,010,000**	$230,145,000	$205,194,000	
Cost of sales	**193,154,000**	177,473,000	157,447,000	
GROSS MARGIN	**55,856,000**	52,672,000	47,747,000	
Selling, distribution and administrative expenses	**46,420,000**	43,795,000	41,129,000	
Gain on sale of investments	—	798,000	—	31
OPERATING INCOME	**9,436,000**	9,675,000	6,618,000	
Interest expense, net of interest income of $1,024,000 (1981), $774,000 (1980) and $594,000 (1979)	**3,839,000**	3,574,000	2,612,000	
Equity in income before taxes on income of continuing operations of financial subsidiary	**752,000**	265,000	147,000	25
Income from continuing operations before taxes on income	**6,349,000**	6,366,000	4,153,000	
Provision for taxes on income from continuing operations	**3,223,000**	2,602,000	2,114,000	23
Minority interest in net loss of consolidated subsidiary	**58,000**	—	—	
INCOME FROM CONTINUING OPERATIONS	**3,184,000**	3,764,000	2,039,000	
Equity in net income of discontinued operations of financial subsidiary	**327,000**	934,000	839,000	25
NET INCOME	**$ 3,511,000**	$ 4,698,000	$ 2,878,000	
EARNINGS PER COMMON SHARE				31
Primary				
Continuing operations	**$.42**	$.50	$.26	
Net income	**$.46**	$.62	$.38	
Assuming full dilution				
Continuing operations	**$.41**	$.49	$.26	
Net income	**$.45**	$.61	$.38	

See Financial Review on pages 21 through 31.

CONSOLIDATED BALANCE SHEETS

At April 30

	1981	1980	See Financial Review Page
ASSETS			
Current assets			
Cash including certificates of deposit of $2,355,000 (1981)	$10,730,000	$ 8,782,000	26
Accounts and notes receivable, less allowance of $816,000 (1981) and $804,000 (1980)	40,819,000	39,733,000	
Inventories, principally finished goods, at lower of cost (first-in, first-out) or market	49,002,000	46,865,000	
Prepaid items	1,531,000	3,339,000	22
Total current assets	102,082,000	98,719,000	
Investment in and advances to financial subsidiary	13,009,000	11,233,000	25
Non-current notes receivable	1,244,000	1,327,000	
Property, plant and equipment, less accumulated depreciation of $14,257,000 (1981) and $12,590,000 (1980)	23,891,000	22,753,000	25
Cost of investments in consolidated subsidiaries over related net assets	3,835,000	3,863,000	21
Other assets	1,996,000	805,000	
Total assets	$146,057,000	$138,700,000	
LIABILITIES			
Current liabilities			
Notes payable	$ 300,000	$ 2,947,000	26
Current maturities of long-term debt	2,215,000	2,243,000	28
Accounts payable	32,441,000	32,222,000	
Accrued liabilities	6,060,000	5,447,000	22
Accrued taxes on income	3,188,000	2,062,000	
Total current liabilities	44,204,000	44,921,000	
Long-term liabilities			
Long-term debt	45,553,000	40,348,000	26
Deferred taxes on income and other liabilities	3,190,000	2,802,000	
Total long-term liabilities	48,743,000	43,150,000	
Minority interest in consolidated subsidiary	77,000	135,000	
Commitments and contingencies			28
STOCKHOLDERS' EQUITY			29
Preferred stock, no par value, 10,000,000 shares authorized; issuable in series			
Series A, $10 stated value, 4.5% cumulative convertible; issued and outstanding 204,155 shares	2,042,000	2,042,000	
Series B, $10 stated value, 5.5% cumulative convertible; issued and outstanding 104,437 shares	1,044,000	1,044,000	
Common stock, $.10 par value, 15,000,000 shares authorized; issued 8,232,173 shares (1981) and 7,855,293 shares (1980)	823,000	786,000	
Capital surplus	27,112,000	25,873,000	
Retained earnings	24,692,000	23,443,000	27
	55,713,000	53,188,000	
Less common stock in treasury, at cost; 1,111,150 shares (1981) and 1,080,037 shares (1980)	2,680,000	2,694,000	
Total stockholders' equity	53,033,000	50,494,000	
Total liabilities and stockholders' equity	$146,057,000	$138,700,000	

See Financial Review on pages 21 through 31.

STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

Fiscal Year Ended April 30

	1981		1980		1979	
	Shares	Amount	Shares	Amount	Shares	Amount
PREFERRED STOCK						
Beginning of year	308,592	$ 3,086,000	317,142	$ 3,171,000	317,142	$ 3,171,000
Conversion of preferred stock	—	—	(8,550)	(85,000)	—	—
At year end	308,592	3,086,000	308,592	3,086,000	317,142	3,171,000
COMMON STOCK						
Beginning of year	7,855,293	786,000	7,487,974	749,000	7,149,365	715,000
Common stock dividends — 5%	376,880	37,000	358,513	36,000	338,609	34,000
Conversion of preferred stock	—	—	8,806	1,000	—	—
At year end	8,232,173	823,000	7,855,293	786,000	7,487,974	749,000
TREASURY STOCK						
Beginning of year	(1,080,037)	(2,694,000)	(1,085,677)	(2,778,000)	(1,072,209)	(2,820,000)
Common stock dividends on shares held by 90.5% owned financial subsidiary	(38,113)	—	(36,301)	—	(34,572)	—
Exercise of stock options	7,000	14,000	41,941	84,000	21,104	42,000
At year end	(1,111,150)	(2,680,000)	(1,080,037)	(2,694,000)	(1,085,677)	(2,778,000)
CAPITAL SURPLUS						
Beginning of year		25,873,000		24,790,000		23,804,000
Common stock dividends		1,233,000		1,012,000		992,000
Conversion of preferred stock		—		84,000		—
Exercise of stock options		6,000		(13,000)		(6,000)
At year end		27,112,000		25,873,000		24,790,000
RETAINED EARNINGS						
Beginning of year		23,443,000		20,744,000		19,801,000
Common stock dividends		(1,270,000)		(1,048,000)		(1,026,000)
Cash dividends:						
Common — $.12 per share		(843,000)		(798,000)		(756,000)
Preferred:						
Series A — 4.5%		(92,000)		(96,000)		(96,000)
Series B — 5.5%		(57,000)		(57,000)		(57,000)
Net income		3,511,000		4,698,000		2,878,000
At year end		24,692,000		23,443,000		20,744,000
TOTAL STOCKHOLDERS' EQUITY		$53,033,000		$50,494,000		$46,676,000

See Financial Review on pages 21 through 31.

STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Fiscal Year Ended April 30

	1981	1980	1979
FUNDS PROVIDED BY:			
Net income	**$ 3,511,000**	$ 4,698,000	$ 2,878,000
Charges (credits) to income not involving cash —			
Depreciation and amortization	**2,456,000**	2,132,000	1,823,000
Provision for deferred taxes	**(6,000)**	446,000	10,000
Equity in net income of financial subsidiary	**(895,000)**	(1,175,000)	(998,000)
Minority interest in net loss of consolidated subsidiary	**(58,000)**	—	—
Reduction of cost of investment in consolidated subsidiary over related net assets acquired	**—**	419,000	—
Total from operations	**5,008,000**	6,520,000	3,713,000
(Increase) decrease in prepaid items	**1,808,000**	(1,874,000)	602,000
Debt arising from acquisition of a business	**—**	—	253,000
Increase in long-term debt	**20,743,000**	10,010,000	5,350,000
Book value of property, plant and equipment sold	**205,000**	1,493,000	553,000
Exercise of stock options	**20,000**	71,000	36,000
(Increase) decrease in non-current notes receivable	**83,000**	(515,000)	202,000
Increase (decrease) in deferred taxes on income and other liabilities	**394,000**	(134,000)	330,000
Minority interest in consolidated subsidiary	**—**	135,000	—
Total funds provided	**28,261,000**	15,706,000	11,039,000
FUNDS USED FOR:			
Increase in accounts and notes receivable	**1,086,000**	4,513,000	6,158,000
Increase in inventories	**2,137,000**	2,826,000	4,044,000
(Increase) decrease in current liabilities	**717,000**	(3,944,000)	(6,646,000)
Property, plant and equipment of acquired business	**—**	—	50,000
Purchase of property, plant and equipment	**3,771,000**	5,252,000	3,986,000
Transfer of inventory to land held for development	**—**	222,000	—
Reduction of long-term debt	**16,647,000**	2,747,000	3,564,000
Cost of investment in consolidated subsidiary over related net assets acquired	**—**	—	19,000
Cash dividends on common stock	**843,000**	798,000	756,000
Dividend requirements on preferred stock	**149,000**	153,000	153,000
Increase (decrease) in other assets	**82,000**	(93,000)	410,000
Increase (decrease) in advances to unconsolidated subsidiary	**881,000**	(92,000)	(74,000)
Total funds used	**26,313,000**	12,382,000	12,420,000
Increase (decrease) in cash	**1,948,000**	3,324,000	(1,381,000)
CASH, BEGINNING OF YEAR	**8,782,000**	5,458,000	6,839,000
CASH, AT YEAR END	**$10,730,000**	$ 8,782,000	$ 5,458,000

See Financial Review on pages 21 through 31.

FINANCIAL INFORMATION BY GEOGRAPHIC AREAS

(In thousands) Sales and Operating Income for the Fiscal Year Ended April 30:	TOTAL	GEOGRAPHIC SOURCE UNITED STATES		CANADA	
SALES					
1981	**$249,010**	**$158,778**	**64%**	**$90,232**	**36%**
1980	230,145	147,656	*64*	82,489	*36*
1979	205,194	134,648	*66*	70,546	*34*
1978	187,617	113,734	*61*	73,883	*39*
1977	163,601	88,989	*54*	74,612	*46*
OPERATING INCOME					
1981	**$ 9,436**	**$ 4,660**	**49%**	**$ 4,776**	**51%**
1980	9,675	4,159	*43*	5,516	*57*
1979	6,618	3,184	*48*	3,434	*52*
1978	5,719	2,304	*40*	3,415	*60*
1977	8,206	3,235	*39*	4,971	*61*
Asset Information at April 30:					
IDENTIFIABLE ASSETS					
1981	**$146,057**	**$101,207**	**69%**	**$44,850**	**31%**
1980	138,700	97,692	*70*	41,008	*30*
1979	123,228	83,411	*68*	39,817	*32*
1978	112,198	76,730	*68*	35,468	*32*
1977	101,656	63,752	*63*	37,904	*37*

FINANCIAL INFORMATION BY FISCAL QUARTER

(In thousands except per share amounts)	Sales	Gross Margin	% of Sales	Income From Continuing Operations	Income From Discontinued Operations	Net Income(1)	Earnings Per Common Share(2) Primary	Assuming Full Dilution
FISCAL 1981								
First quarter	$ 60,493	$13,358	*22%*	$ 735	$ 95	$ 830	$.11	$.10
Second quarter	60,378	13,754	*23%*	1,057	131	1,188	.16	.16
Third quarter	64,259	12,650	*20%*	114	140	254	.03	.03
Fourth quarter	63,880	16,094	*25%*	1,278	(39)	1,239	.16	.16
Fiscal Year	$249,010	$55,856	*22%*	$3,184	$327	$3,511	$.46	$.45
FISCAL 1980								
First quarter	$ 54,764	$12,874	*24%*	$1,027	$192	$1,219	$.16	$.16
Second quarter	55,300	12,668	*23%*	706	208	914	.12	.12
Third quarter	54,887	11,792	*22%*	191	209	400	.05	.05
Fourth quarter	65,194	15,338	*24%*	1,840	325	2,165	.29	.28
Fiscal Year	$230,145	$52,672	*23%*	$3,764	$934	$4,698	$.62	$.61

(1) Historically, the Company follows conservative accounting practices relating to the valuation of its inventories during interim periods. Estimated gross margins are used to determine approximately 50% of cost of goods sold and any cumulative inventory gains or losses are not recorded until the fourth quarter after they are verified by physical counts. During the fourth quarter of fiscal 1981 and 1980, these inventory adjustments, together with certain adjustments recorded by the Company and its financial subsidiary, in fiscal 1980, resulted in an increase in net income of approximately $1,100,000 ($.15 per share) in 1981 and $900,000 ($.12 per share) in 1980.
(2) Adjusted for 5% stock dividend.

FINANCIAL INFORMATION BY SEGMENTS

(In thousands) Sales and Operating Income Fiscal Year Ended April 30:	1981		1980		1979		1978		1977	
SALES										
Replacement Parts										
Automotive	$ 98,835		$ 95,806		$ 94,941		$ 89,851		$ 83,447	
Agri-equipment	12,342		13,807		10,763		9,821		10,739	
Total	111,177	45%	109,613	48%	105,704	52%	99,672	53%	94,186	58%
Metal working machinery	95,462	38	81,396	35	68,236	33	56,587	30	40,105	25
Transportation equipment	22,668	9	19,597	9	17,355	8	15,712	8	13,611	8
Fabricated metal products	6,635	3	7,210	3	4,275	2	7,378	4	8,265	5
Other industry segments (1)	13,068	5	12,329	5	9,624	5	8,268	5	7,434	4
Total sales	$249,010	100%	$230,145	100%	$205,194	100%	$187,617	100%	$163,601	100%
OPERATING INCOME (2)										
Replacement parts	$ 5,282	45%	$ 4,496	38%	$ 5,333	59%	$ 3,727	47%	$ 5,774	59%
Metal working machinery	2,992	26	3,379	29	2,011	22	1,415	18	960	10
Transportation equipment	2,387	21	1,538	13	1,360	15	1,386	17	905	9
Fabricated metal products	253	2	451	4	(159)	(1)	872	11	1,655	17
Other industry segments (1)	671	6	1,823	16	476	5	565	7	447	5
Operating income of segments	11,585	100%	11,687	100%	9,021	100%	7,965	100%	9,741	100%
General office	(2,149)		(2,012)		(2,403)		(2,246)		(1,535)	
Operating income	9,436		9,675		6,618		5,719		8,206	
Interest expense, net	(3,839)		(3,574)		(2,612)		(2,128)		(1,716)	
Financial services, continuing operations (3)	752		265		147		135		63	
Income from continuing operations before taxes on income	$ 6,349		$ 6,366		$ 4,153		$ 3,726		$ 6,553	
Asset Information at April 30:										
IDENTIFIABLE ASSETS										
Replacement parts	$ 66,246	45%	$ 64,769	47%	$ 62,156	50%	$ 59,472	53%	$ 54,830	54%
Metal working machinery	23,935	16	24,715	18	19,296	16	15,140	14	12,523	12
Transportation equipment	10,079	7	9,442	7	7,649	6	6,743	6	6,085	6
Fabricated metal products	5,510	4	5,609	4	5,648	5	4,227	4	6,143	6
Financial services (3)	13,009	9	11,233	8	10,150	8	9,226	8	8,467	8
Other industry segments (1)	16,672	12	15,708	11	15,197	12	12,276	11	12,124	12
General office	10,606	7	7,224	5	3,132	3	5,114	4	1,484	2
Total assets	$146,057	100%	$138,700	100%	$123,228	100%	$112,198	100%	$101,656	100%

(1) Other industry segments includes the real estate, import-export, engineering services, and printing and allied products segments.
(2) Operating income represents net sales, less applicable costs and operating expenses. In computing operating income of industry segments, general office expense, interest expense and interest earned have been excluded.
(3) The financial services segment is accounted for on the equity method.

FIVE YEAR FINANCIAL SUMMARY

(In thousands except stock data) Fiscal Year Ended April 30:	1981	1980	1979	1978	1977
SUMMARY OF OPERATIONS					
Sales	$ 249,010	230,145	205,194	187,617	163,601
Percent of annual sales increase	8.2%	12.2%	9.4%	14.7%	7.3%
Gross margin	55,856	52,672	47,747	43,851	42,343
Gross margin as a percent to sales	22.4%	22.9%	23.3%	23.4%	25.9%
Operating income	9,436	9,675	6,618	5,719	8,206
Operating income as a percent to sales	3.8%	4.2%	3.2%	3.0%	5.0%
Interest expense, net	3,839	3,574	2,612	2,128	1,716
Equity in income before taxes on income of continuing operations of financial subsidiary	752	265	147	135	63
Income from continuing operations before taxes on income	6,349	6,366	4,153	3,726	6,553
Provision for taxes on income from continuing operations	3,223	2,602	2,114	1,955	3,129
Minority interest in net loss of consolidated subsidiary	58	—	—	—	—
Income from continuing operations	3,184	3,764	2,039	1,771	3,424
Equity in net income of discontinued operations of financial subsidiary	327	934	839	664	524
Net income	$ 3,511	4,698	2,878	2,435	3,948
Net income as a percent to average stockholders' equity	6.8%	9.7%	6.3%	5.5%	9.6%
Fixed charge coverage (1)	2.0×	2.2×	2.1×	2.2×	3.4×
Canadian currency translation reduction in net sales	$ 15,887	13,908	11,286	6,698	444
Unrealized Canadian currency translation losses included in net income	$ 1,252	38	1,381	1,291	678
STOCK DATA (2)					
Earnings per common share:					
Primary —					
Continuing operations	$ .42	.50	.26	.23	.45
Net income	$ .46	.62	.38	.32	.52
Assuming full dilution —					
Continuing operations	$ .41	.49	.26	.23	.44
Net income	$ .45	.61	.38	.32	.51
Dividends paid:					
Common —					
Cash per share	$ .12	.12	.12	.12	.06
Stock per share	5%	5%	5%	5%	3%
Preferred	$ 149,000	153,000	153,000	154,000	160,000
Book value per common share	$ 7.01	6.65	6.14	5.86	5.62
Number of common stockholders of record	11,300	11,500	11,900	12,200	12,400
Weighted average common shares outstanding:					
Primary	7,310,000	7,279,000	7,215,000	7,213,000	7,330,000
Assuming full dilution	7,736,000	7,686,000	7,606,000	7,583,000	7,689,000
Common stock price range for year	$ 4¾ – 2¾	4⅝ — 2¾	4⅞ — 3⅛	5⅛ — 3	6⅜ — 4½
Common stock price/earnings range	10× — 6×	7× — 4×	12× — 7×	14× — 8×	11× — 8×
BALANCE SHEET DATA					
Working capital	$ 57,878	53,798	45,205	43,632	39,482
Current ratio	2.3	2.2	2.1	2.3	2.3
Property, plant and equipment:					
Cost	$ 38,148	35,343	32,131	31,092	28,293
Accumulated depreciation	$ 14,257	12,590	11,262	11,911	10,622
Additions	$ 3,771	5,252	4,036	4,155	3,294
Aggregate lease payments	$ 2,645	2,302	1,587	1,398	1,361
Total assets	$ 146,057	138,700	123,228	112,198	101,656
Capitalization:					
Short-term debt (including current maturities of long-term debt)	$ 2,515	5,190	6,235	5,793	2,364
Long-term debt	$ 45,553	40,348	33,085	31,046	26,323
Stockholders' equity	$ 53,033	50,494	46,676	44,671	43,086
Debt-to-equity ratio	86%	80%	71%	69%	61%

(1) For the purpose of calculating the ratio of earnings to fixed charges, earnings consist of income from continuing operations before taxes on income, less income from continuing operations of financial subsidiary, plus fixed charges. Fixed charges consist of interest expense, amortization of debt discount and expense and that portion of rental expense attributable to interest.

(2) Adjusted retroactively for stock dividends.

CORPORATE INFORMATION

STEEGO CORPORATION

319 Clematis Street, West Palm Beach, Florida 33401
Telex — 51-3450
Telephone 305/655-9700

STOCKHOLDER INQUIRIES

Stockholder records are maintained at the Company's corporate office in West Palm Beach. Please write to:

STEEGO CORPORATION
STOCKHOLDER RELATIONS
319 CLEMATIS STREET
WEST PALM BEACH, FLORIDA 33401

1) if you change your address,
2) have any questions regarding your account,
3) have any questions regarding dividend checks, or
4) receive duplicate mailings.

Communications regarding transfer requirements and lost stock certificates should be directed to the transfer agent named below.

STOCK TRANSFER AGENT AND REGISTRAR

Chemical Bank
P.O. Box 25964
Church Street Station
New York, New York 10249

REQUESTS FOR ADDITIONAL DATA

The annual report on Form 10-K for the fiscal year ended April 30, 1981 filed with the Securities and Exchange Commission will be furnished without charge to any stockholder, who is a record or beneficial holder of shares as of the record date for the annual meeting, upon written request to the attention of the corporate secretary.

ANNUAL STOCKHOLDERS MEETING

The annual meeting of stockholders is scheduled to be held at The Boston Park Plaza Hotel, 64 Arlington Street, Boston, Massachusetts at 10:00 A.M. on Thursday, August 27, 1981.

GENERAL COUNSEL

Friedman & Koven
208 South LaSalle Street, Chicago, Illinois 60604

STEEGO CORPORATION

319 Clematis Street
West Palm Beach, FL 33401

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